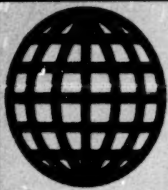


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13 MARCH 1989



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JPRS Report

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CONTENTS

13 MARCH 1989

POLITICAL

POLAND

Longtime Socialist Activist on Ideological Differences, Solidarity [WPROST 18 Dec]	1
Attacks on Government-Approved Journalist Association Countered [PRASA POLSKA Dec]	4
PRON Sponsors Agricultural Seminar, Regionalization Policy Viewed [PRZEGLAD TYGODNIOWY 29 Jan]	7
Party Activities Calendar 21 November-4 December 1988 [ZYCIE PARTII 14 Dec]	9

ECONOMIC

HUNGARY

Stabilization Characterized By Prolonged Shock, Tension, Conflict [FIGYELO 5 Jan]	12
Obstacles to Foreign Capital Inflow Analyzed [FIGYELO 22 Dec]	16
Soviet Natural Gas: Details of Agreement, Rationale Described [HETI VILAGGAZDASAG 7 Jan]	18
Causes, Effects of Rising Interest Rates Analyzed [FIGYELO 22 Dec]	21
Tungsram Operating Capital Increased [HETI VILAGGAZDASAG 28 Jan]	22
Economic Harm From Unreported, Untaxed Income Described [MAGYAR NEMZET 3 Jan]	25
Complex Tax Math Required for Small Farmers [HETI VILAGGAZDASAG 7 Jan]	26
Unions Protest Price Increase, Stop Work [MAGYAR NEMZET 10 Jan]	27
Co-Ops Claim Government Breach of Contract [MAGYAR NEMZET 27 Dec]	28
First Private Stock Corporation Established [MAGYAR NEMZET 4 Jan]	29
Petitioners Oppose Power Plant Construction [MAGYAR NEMZET 3 Jan]	29

POLAND

Longtime Socialist Activist on Ideological Differences, Solidarity

26000302 Poznan WPROST in Polish
No 51, 18 Dec 88 pp 4-6

[Interview with Wladyslaw Bienkowski, former member of the Central Committee of the Polish Workers' Party who has published in so-called Second Circuit or underground publications since 1966 and author of "Motory i hamulce socjalizmu" [Engines and Brakes of Socialism] and the book "Zrozumiec spoleczenstwo" [Understanding the Polish Public] that was recently submitted for publication by a domestic (official) publishing house, by Marek Zieleniewski: "From Revolution to Evolution" under the rubric "WPROST Interviews"; date and place not given]

[Text]

[WPROST] You used to be often termed "the most talented political publicist of the PPR" [quondam Polish Workers' Party]. In 1970 you were expelled from the PPR. Do you still consider yourself a communist nowadays?

[Bienkowski] From birth I have had one prominent trait: a critical attitude. Also, I have never been crazy about the idea of the so-called ideological identity. I am a free spirit and I have always tried above all to be a pragmatist. If, for example, I attacked Mikolajczyk [the leader of the anticommunist Peasant Party in the late 1940's] so sharply, that was not because I liked him, let us say, political sympathies, but because I viewed his offer to an eventual Polish opposition as unsuitable if not definitely harmful. I often used to tell my comrades that I became a communist in order to think and not in order to believe. Well then, do I still feel a communist? Let me answer thus: nowadays I believe even less.

[WPROST] This means that Gomulka had judged you well in writing of you: "He wrote well with a great dash. But he was and has remained an anarchist by nature."

[Bienkowski] Gomulka was a man with a great social intuition, and at the outset we had had much in common.

[WPROST] In 1948 you submitted your self-criticism as the author of the notorious "deviationist" article in TRYBUNA WOLNOSCI. Let us not discuss its contents, for what is more important is that you had not only submitted that self-criticism but also cut yourself off from Gomulka, who attempted to defend the theses of that article.

[Bienkowski] First, that was not some humiliating self-criticism. Second, I had not believed in suicidal actions at the time.

[WPROST] You were removed from membership in the Central Committee for "manifesting over a number of years rightist and nationalist tendencies. However, you landed not in Wronki [prison] but in the sinecure of the director of the National Library. Had every "deviationist" or "enemy of the people" been treated like you at that time, we would probably have been feeling nowadays a great nostalgia for the first half of the 1950's.

[Bienkowski] I did indeed receive exceptional treatment. Why? I believe that those fellows in power, who by their nature were very suspicious, conceived the idea that I was an incredibly sly individual and one deeply involved in conspiracies. I was therefore instead kept under observation and a dozen or so of my acquaintances were instructed to keep an eye on me and write monthly reports about me. Several of them confessed their duties to me and even asked me what they were supposed to write in those reports. So I would curse roundly members of the Politburo and deride the orders they issued. Of course, I was perfectly aware that this was not what interested most the readers of those reports. But then there was nothing else I could offer them to read—no trail led anywhere from me.

[WPROST] What was the nature of Polish Stalinism? Was it as defined in Berman's reminiscences ("You know, Beria was putting the pressure on us, but I and Comrade Tomasz [nom de guerre of Boleslaw Bierut] did everything to minimize the crimes and terror")? Or was it perhas better reflected in Sokorski's reminiscences ("I realized that we were ruled by Stalin's will and, if we wanted to dine in Warsaw instead of in Kamchatka and preserve Polishness in some way, we must reach some compromise")? If that was the nature of Polish Stalinism, then people like Berman, Tomasz, and Sokorski should be thanked today because in Poland there were fewer show trials leading to death sentences than in any other [socialist] country.

[Bienkowski] I read "The Confession," that book by London, a prominent activist of the Czechoslovak CP who was accused at Slansky's trial. London survived only because his wife was the daughter of a prominent French communist activist. Well, his "Confession" describes that trial. A trial with planted witnesses, with defendants who were previously trained by professional actors—trained to look totally credible at the moment when they would show repentance and admit guilt. "The Confession" is a prescription for changing a human being into a rag, and at the same time it is the pithiest definition of Stalinism.

[WPROST] That is pure Orwell.

[Bienkowski] Orwell [his "1984"] is a fiction and a myth. A myth which enjoys immense popularity because it fills a lacuna in public awareness, a lacuna due to the absence of thorough historical studies of that period. It is a myth which may indeed depict universal mechanisms but which in no way fits the situation in Poland. Because,

what matters most, in this country there had hardly been a trial justifying the writing of a "Confession" by London. The defendants did not break down as rapidly here as in the other [socialist] countries, and witnesses were missing or suspected of being too embarrassing. National character was decisive. As for Berman, there is nothing to thank him for. That was a self-actuating machinery. But as for Bierut, he was not always a blind tool. In his personal diary, whose two Polish readers still survive, he recalled, for example, how he was summoned by Stalin who demanded the arrest of Berman and Cyrankiewicz. Bierut heard that demand at midnight after waiting for Stalin 3 days in an empty country house. But he did not bow to that demand. He answered that in this case, "for the sake of the principle of collegiality," he himself should be arrested as well. To top it all, please consider the consequences of the fact—which may account for, to say the least, the differences in the unfolding of events in 1956 in Warsaw and Europe [when workers bread riots in Poland resulted in the appointment of the national communist Gomulka to the top leadership, and this was tolerated by the Soviets, whereas the Hungarian counterrevolution was smashed by the Soviets]—that Khrushchev's report [on Stalin's crimes] was familiar to the Polish people 2 years before it was made known to the CPSU Central Committee [as published]: it was broadcast by.... Swiatlo from the microphones of Radio Free Europe.

[WPROST] But why did not Gomulka after October 1956 try to implement his own ideas ["national communism"] from before 1948? Why did not he try to rectify correspondingly that version of socialism which had been built during his political absence and which he had inherited?

[Bienkowski] There were several reasons. Let me mention one that is not well known though it may be the most important. Well, few people in Poland nowadays realize that the 14 years of the Gomulka Administration, from October 1956 until December 1970 [massacre of workers in Gdansk] were a period of a constant struggle between the party and its head. I recall Gomulka's address to the Eighth Plenum in October, in which he faulted Stalinism not only Stalin himself but all the petty Stalins. The party apparat never forgave him for this. I remember how he was welcomed by half a million people crowded into Parade Square and adjoining streets, and when in addition the entire nation supported him. No other Polish ruler since the times of Piast and Rzepicha had enjoyed such popular support as Gomulka did on that day. I remember the popular enthusiasm, the gigantic "Hyde Park" in Parade Square, when one of the impromptu "soapbox" speakers demanded membership in the Politburo for Primate Wyszynski. And lastly I remember the conference of the party aktiv in Congress Hall, organized a week later. The audience looked sullen as it sat facing the solitary First Secretary on the platform. "We value you. We shall not let you be hurt. We shall defend you," he said. So, if I am asked just when did the October era come to an end, I answer, precisely then, in Congress Hall.

[WPROST] In your case it can hardly be said that after 1956 your career was meteoric. For 3 years you were minister of education, and thereupon you were appointed deputy chairman of the State Council for the Protection of Nature.

[Bienkowski] I enjoyed my duties as minister and was able to accomplish a lot so long as the party was in retreat. But once the party consolidated itself, local apparatchiks began to do what they liked to schools. At the time there had been a campaign to eliminate religion from schools. I argued that legal separation of church from state should be introduced. But no. Instead, religion was eliminated by administrative fiat and through a scenario that can be readily conceived. As a result, I must admit that I was glad to be transferred to the Council for the Protection of Nature. I, an indefatigable mountain climber, was given my beloved Tatra Mountains as a gift, as it were. Well, I also gained leisure time for personal pursuits.

[WPROST] "Engines and Brakes of Socialism" was probably the first of your books to gain broad publicity, was not it?

[Bienkowski] It was the first to be published abroad. Earlier I had written various memorials concerning the domestic situation, usually very critical ones, which I had loyally transmitted to Gomulka. But they met with no response. In addition, the censors blocked discussion of my last officially published book, "Problemy teorii rozwoju spolecznego" [Problems of the Theory of Social Development]. And soon that became the rule. For example, the works of the "controversial" [Adam] Schaff were published, but my polemics with him no longer were. Let me tell you, however, that I made no efforts on my own to have any of my books published abroad.

[WPROST] But you did not object at all to their being published abroad.

[Bienkowski] True. Usually it sufficed, as in the case of "Engines," for me to "release for circulation" several copies of my typescript. And later I heard an anecdote about two party comrades who met in Savior Square at around 2200 hours. One wanted to chat with the other, but the other declined, saying, "I'm in a hurry for a party training course." "Now? At this late hour?" the first man wondered? "Well, don't you know? The 'Free' [University] course is based on Bienkowski's book," the second man answered. It is of course another matter that, because of such "training courses," I was expelled from the party. I also wrote "Kryzys rolnictwa czy kryzys polityki rolnej" [A Crisis of Agriculture or a Crisis of Agricultural Policy] to which I added a "Catechism," or questions and answers. The first question was, "Is it true that private farming is a relic of capitalist times?" The answer was, "Not true. Private farming is as old as mankind, and it will survive all systems of society, including communism as well." In connection with that book I even experienced a gratifying moment when a

deputy prime minister telephoned me and declared, "Well, you should feel good. The recent plenum followed your program." This concerned the plenum which had resolved to support private farming.

[WPROST] You did not emigrate. The only other thing known about you for the last 18 years is that you continue to write. Let us therefore consult the typescript of your most recent book, "Understanding the Society," which you had completed 2 months ago. This work is more or less a synthesis of all your writings so far. Its message probably reduces to the claim, "Marxist premises of the necessity of a revolution changing the system of society, inclusive of an economic and a social revolution, have ceased to be topical. Besides, according to the well-known Marxist principle, no system of society gives way to another system so long as it still harbors potential for growth."

[Bienkowski] For I claim that Marx failed to foresee that the ancient-feudal barrier separating the laboring masses from the usufructs of their own labor would tumble. And it tumbled owing to the growth needs of domestic markets as resulting from the decay of the colonial system; in this connection, captains of industry rapidly realized that they could profit not only by underpaying their workers but also, and much more at that, by paying them. That barrier also was demolished by the pressure of the 19th century working class, whose struggle for social rights became the prime mover of capitalist progress.

[WPROST] Your most recent interpretation of communism as an attempt to "graft the shoots of capitalist dynamism onto the stump of the old despotic system" differs greatly from the views you used to express while a political publicist for the PPR.

[Bienkowski] This perception matured in my mind over the last several decades. But from the outset I did not delude myself about Lenin's conscious preference for despotism. He believed that despotism could be much more effective than any democracy. Of course, had a revolution broken out in the West, as prophesied by Marx, that would undoubtedly have resulted in a quite different orientation and machinery of the growth of communism. The fact that, instead, the orientation was toward an unlimited dictatorship in Soviet Russia caused the communist system to disregard a fundamental accomplishment of Western civilization, namely, the process of the maturing of the society toward its autonomy.

[WPROST] And that is why you appeal emphatically, "Show this society (for god's sake) that, at least in the distant future, the baby's pacifier closing its lips will be removed so that it may finally speak in its own voice."

[Bienkowski] High efficiency despite despotism is manifested only by the countries of the Pacific Rim, which nowadays display such vigorous growth. But then they

are endowed with a major asset in the form of their unique specifically Oriental social discipline. As I see it, that trait is alien to the Soviet society, or perhaps at least to the European part of that society, which has been contaminated by the influence of Western civilization.

[WPROST] But you will agree that this is not an incontestable assumption. However, let us consider another subject, namely, the fact that your book's title is "Understanding Society," but your comments indicate that every society has to be understood differently—Polish society, too. You demand the "sovereignty of the society." But does the Polish society, for example, given the so-called egalitarian-authoritarian mentality it has acquired over many years, really want nowadays to be "sovereign"? And if yes, can it cope with the consequences of that "sovereignty"?

[Bienkowski] This is indeed a serious question and, of a certainty, the history of Solidarity provides plenty of food for thought. During the Solidarity Congress, to which I had been invited, I made the off-the-record remark that the greatest trick which the party could play on Solidarity would be to surrender power to it. Because then it would turn out that Solidarity would burst at all of its seams into smithereens from which at least 30 separate political parties would arise.

[WPROST] That is, if I understand you right, we cannot choose chaos—we are not that kind of society, we do not have that kind of tradition, and also we do not have that kind of discipline. What is then left us, according to you?

[Bienkowski] On 4 December 1981, 9 days before the proclamation of martial law, I answered the last question of a poll published by the Krakow periodical STUDENT as follows: "The dramatic element is that in situations resembling our Polish situation the way out has always been a new dictatorship, arisen through either the defeat or the victory of the proreform tendencies. Because it is a curse that those who fight for liberation always bring about a dictatorship."

[WPROST] And hence dictatorship is part of the pattern in our situation. But at present there is a public debate about the rebirth of socialism, its return to fundamental values—the liberation and self-determination of man. The vision of a democratic socialism with a human face seems fascinating and it will be hardly difficult to find adherents of that vision, unless it remains mere rhetoric.

[Bienkowski] I am not denying that vision. On the contrary, I proceed from the assumption that there is no point in considering any return to traditional forms of capitalism, that we do not have the 100 years needed to emulate the revolution that has taken place in Western civilization. Besides, the era of revolutions is over: they are too costly; sudden upheavals nowadays can take place only in backward countries which have little to lose. Thus for us there remains evolution, an evolution in

the direction of democratization of socialism, of exploration of sources of efficiency for which there are no ready-made models in the world for us to follow.

Attacks on Government-Approved Journalist Association Countered

26000298 Warsaw PRASA POLSKA in Polish
No 12, Dec 88 pp 24-26

[Article by Florian Dłuzak: "What Are Edmund Osmanczyk and Stefan Bratkowski Waiting For?";]

[Text] Toward the end of last October there appeared in the press two articles meriting the attention of the journalist community. On 21 October RZECZPOSPOLITA published "Open Letter to the New Prime Minister" by Edmund Osmanczyk [Chairman, Actors and Playwrights Union, former Sejm deputy, and author of "Encyclopedia of the United Nations"], and several days later, on 25 October, Voice of America interviewed Stefan Bratkowski [former head of the premartial law Polish Journalists Association]. Osmanczyk's letter in part and Bratkowski's interview in its entirety dealt subjectively and one-sidedly with certain aspects of Polish journalism, and hence require illumination from another point of view. I shall not quote their comments in toto, and instead I shall confine myself to rebutting objectionable passages.

Edmund J. Osmanczyk: "This also obligates you [Mr Prime Minister Rakowski] to repair the damage and injustices suffered by at least 2,000 journalists in the nearly 8 years since then [since the imposition of martial law]. In no other professional group have so many people, in proportion, paid such a high price for their commitment to social movement: loss of jobs, imprisonment, repressions, fines.... The present New Yorker and former [PZPR] secretary of propaganda [Stefan Olszowski] had delegatized the SDP [Association of Polish Journalists] by a martial-law decree and lawlessly confiscated all the assets of the SDP, contributed jointly by its members."

Stefan Bratkowski: "At the time more than 1,200 [journalists] lost their jobs, an additional 1,000 were demoted from their positions to degrading jobs, etc."

Florian Dłuzak: As a member and activist of the former Association of Polish Journalists and as one of the founders and, during 1982-87, a vice chairman of the SD PRL [Journalists' Union, Polish People's Republic], I cannot afford to disregard such statements. They concern the painful process of the so-called vetting of journalists, a process which has indeed so far not been sufficiently elucidated and evaluated, thus resulting in the pronouncement of simplified judgments misleading the public opinion. I must however make the reservation that I have from the outset been critically disposed toward that vetting itself, viewing it as simply unnecessary. The founding groups of periodicals and the political leadership could have achieved the same ends by simply

replacing the persons holding executive positions in the editorial offices. I think that the procedure followed by POLITYKA could have served as a model to the entire press; at that periodical there was no vetting and instead part of the personnel (about 10 persons) simply packed up and left, having acknowledged that they could not continue in their jobs under the new circumstances.

Had a similar model of conduct been adopted in the press as a whole as well as in radio and television, that would suffice for a change in the mode of directing propaganda while at the same time avoiding the distaste of vetting, which unfortunately, even when conducted in the most civilized manner possible, resembled a kangaroo court and has indeed been exerting to this day a malign influence on the psyche of the journalist community.

Moreover, because from the outset it became something shameful, that being understandable, vetting has prompted various arbitrary interpretations of the events of the first few months of 1982. Above all, it is conducive to exaggerating the actual events. Unfortunately, despite the efforts made, it has not proved possible to obtain fully credible information on the consequences of vetting. We at the Provisional SD PRL had tentatively assumed that vetting resulted in several hundred (600-800) personnel decisions leading to dismissals of journalists or their transfer to other jobs or to other newspapers or periodicals. Nor is adequate information available on how many of those several hundred have been dismissed from their jobs by the verdicts of the vetting commissions and how many resolved, as in POLITYKA, that in the new conditions they were unwilling to continue cooperating with their editorial teams and that it was their own decision and not the decision of a vetting commission.

Andrzej Malachowski published in PRZEGLAD TYGODNIOWY, No 20, 1985, a detailed survey of the vetting program, specifying a numerical scope that roughly coincides with mine. Interested readers may consult that article. But I believe that at present the vetting can be viewed more extensively and objectively, for it is not only statistics that matter.

Determining the actual consequences of the vetting is a task that has to be undertaken in order to offer testimony to truth and isolate what was a necessity in those times from abuses or thoughtless repressions. I am not certain whether this precisely is a task fitting an association of journalists that was formed from individuals who passed that vetting process. Nevertheless, such a study has to be made. Sufficient time has elapsed to consider this matter objectively and dispassionately.

Of a certainty the number of the vetted journalists did not exceed 1,000 persons. Even so, we at the SD PRL have been aware of instances of obvious injustice in which male and female fellow reporters were discharged

from their jobs through no fault of their own but solely because editors in chief had availed themselves of this opportunity to settle personal scores. Also understandable is the feeling of injustice among those journalists whose political intentions prior to 13 December 1981 [prior to the imposition of martial law] had been misjudged.

That is why from the outset the SD PRL had established a commission for examining appeals against the verdicts of vetting commissions. Several score such appeals were settled positively. But those who had quit their jobs or even their profession voluntarily did not want to lodge an appeal or even were not eligible for lodging it. The Provisional SD PRL also made efforts to obtain the release of interned journalists and to provide journalistic jobs to those desiring them. Moreover, membership in the SD PRL has never been closed to all those deriving their living from the journalistic profession, and no one has questioned them about their world outlook or about any critical attitude toward our system of society or the political authorities.

We realize that, on the individual scale, some of the injustices perpetrated have not been rectified to this day. This realization was reflected also in the discussion of the consequences of the vetting during the Fourth Plenum of the Main Board of the SD PRL. Elsewhere in the present issue of PRASA POLSKA is presented a report on that Plenum which contains the responses of the editors Ryszard Niemiec, Jozef Ambrozowicz, Marian Podkowinski, and Stefan Cieplny concerning this problem.

The concept of injustice as interpreted by both authors also applies to the material situation of the journalists who, let us put it this way, switched to the opposition or remained in the opposition. This is probably a question of adopting particular criteria for evaluation. All journalists had it difficult in the years 1982-83, but the material situation of those in the opposition was on the whole better. They had work and, if they were lucky, they even received material assistance from the church as well as foreign aid.

In these circumstances, posing as martyrs of the regime will not do, the more so considering that all journalists know what it really was and is like.

Edmund Osmanczyk claims that Stefan Olszowski had lawlessly confiscated the entire assets of the SD [Democratic Party]. This is not an accurate claim, and moreover it implies to public opinion that all these assets have, along with all the accomplishments of the SDP been lost, forfeited. In reality, the assets of the SDP have not been confiscated but simply transferred to an administrator following the suspension of the SDP and subsequently transferred to the SD PRL as the successor organization in charge of the accomplishments of the Polish journalist community. Since this organization reconstructed itself rapidly, the material and moral

accomplishments of the SDP have not been forfeited but on the contrary have been protected and augmented. It is also worth noting that the SDP had never reached the degree of material independence of the present SD PRL, which is self-financing and receives no subsidies from the State or from employers.

Edmund J. Osmanczyk: "This [journalist] community demands neither the dissolution of the SD PRL nor the return of the house [owned by the SDP] on Foksal Street. Instead, we demand restoring the right of the SDP to operate and enabling us to create our own jobs. We shall not engage in any mutual agreement with the SD PRL, because agreements can be concluded only between equals in rights and assets."

Florian Druzak: The above declaration is completely contradictory. One cannot demand the restoration of the SDP and at the same time assent to the continued existence of the SD PRL. We keep no statistics of this kind, but, I believe, most of the SD PRL members used to belong to the SDP. What is it then to be? Are we to become, by administrative fiat, again members of the relegalized SDP and thus to gain dual citizenship as it were?

I am convinced that Prime Minister Rakowski will readily perceive such an illogic. Moreover, the claim that the decision to disband the SDP was lawless is in no way justified. Appeals against the decision of the Mayor of Warsaw to disband the SDP, addressed first to the Ministry of Internal Affairs and subsequently to the Supreme Administrative Court, were denied, thereby legalizing that decision. Thus I do not think that the Prime Minister has the power to void a legal decision. Why then make claims which are known in advance to be unrealistic?

The statement that there can be no "mutual agreement" with the SD PRL (What is the meaning of those quotation marks? Are they supposed to convey contempt, denial of identity, humiliation?) is painful to hear. Whence that a priori assumption of impossibility of agreement? What inequality of rights and assets is meant? What is the nature of the legal inequality between the members of a journalists' organization and those journalists who are not its members, even if they intend to establish a separate organization? And no one can tell why inequality in assets should be an obstacle to reaching mutual agreement. The SD PRL administers the material accomplishments of the Polish journalist community and attempts to augment them. It acts on behalf and to the advantage of the entire journalist community, and it has a democratically justified right to do so, because it associates more than 80 or perhaps even 90 percent of all journalists in Poland. Nevertheless, it has always acted with its hand extended for an accord. Whoever desires so can reach an agreement with us. But whoever declares that such an agreement "won't do" and

thinks up some allegedly objective reasons for the impossibility of that agreement, has to accept the responsibility for promoting schism within the journalist community.

The above-cited passage from the letter by E. Osmanczyk also includes a demand for "enabling us to create our own jobs." That is like wanting to burst open a door that is already open, considering that this possibility is afforded by the Press Law Decree of 26 January 1984. A novelty at present is that the journalists' organization which is to be established in the future (and which certainly will be established on the basis of the new law on associations) is going to be active in the press, radio, and television. This is hardly a feasible idea. It looks like the journalists who will in the future be hired by that new journalists' organization will have to join the SD PRL in order to receive the kind of protection offered by an ordinary trade union.

But the following excerpt from an interview of Stefan Bratkowski by the Voice of America is particularly disturbing:

Voice of America: "I believe that most if not all of the leading Polish journalists, whereby I mean journalists respected by the public, are members of the SDP rather than of the SD PRL or 'Duperel' as it is popularly [and somewhat vulgarly] called in Poland. Is not that so?"

Stefan Bratkowski: "Yes, that is indeed so, because even on the government side a large number of the most eminent journalists such as, say, Passent and his colleagues at POLITYKA, do not belong to the SD PRL. That group of individuals who were shoved aside and fired is numerically large; it practically accounts for all the leading members of the journalistic profession, with the exception of precisely a few such as Passent or Glabinski or the Radio Committee Chairman Janusz Roszkowski, who had indeed been an excellent chairman of the PAP throughout the years of existence of that institution. As for the remainder, they are our colleagues and I must state with dismay that in these last 7 years the official press has offered no advancement or promotion to practically any of them, that there is not one new reputation other than those gained earlier, and this is not the fault of the system of these mass media such as is operating at present.... Our colleagues have, on the other hand, despite these extremely difficult conditions and circumstances, not only demonstrated their fortitude but also redoubled, as it were, their creative efforts. Just consider: this has been a great period for our journalism."

Florian Druzak: My God—this is typical propaganda of success [sloganeering]. So those who did not join the SD PRL are "our people" and "outstanding individuals." So those who stick to the SDP and refuse to acknowledge its dissolution are the nobility, the elite of journalism, whereas the members of the SD PRL are hoi polloi, the plebs. To be sure, Bratkowski did not use these terms—

the nobility and the hoi polloi—in his interview with the Voice of America, but I am aware that precisely this kind of terminology is circulating among the circles close to him.

Very well, I shall master my justified outrage and try to evaluate this objectively. I myself am not qualified to evaluate the contributions of the journalists belonging to the "second circulation" [the underground press]. I have heard the opinion that these contributions are hardly substantive. But let us assume that we are witnessing a soaring of the journalism of the "second stage." But what about the first stage? Was it asleep? After all, the flowering of journalism as a whole in the 1980 is an indisputable fact to any objective observer. The pious wish for the [regime-sponsored] press, radio, and television to disintegrate owing to the vetting and the boycott did not come true. The newspapers rapidly overcame the problems of restarting. They became interesting and in demand. The "days without press" [days on which people were expected not to buy the official press], which were so zealously supported by the leadership of the SDP, soon sank into oblivion. New periodicals appeared, and the press has become critical in tone, colorful, and aggressive. Entire pleiades of young journalists started their careers and in many cases came into fashion and became successful.

The contest for journalistic reminiscences sponsored by PRASA POLSKA has ended. It has resulted in a rich harvest of nearly 40 presentations at a high level, and it reflects the panorama of Polish journalism. I do not know whether the contestants were confined to members of the SD PRL alone. No one has asked them that. But not a single presentation indicated that its author was active in the "second circulation." That is a pity, because the contest afforded a chance for anyone to demonstrate his talent. After all, official publishing houses and periodicals now publish works by persons considered as belonging to the underground, and no one views it as tactless. On the contrary, in my opinion, this is a way of relieving unnecessary tensions. I do not understand why both the writers I am quoting tend in all their statements toward a confrontation bound to be either barren or even destructive. Yet even small conciliatory gestures would bring us closer toward a goal that is essentially the same.

I wish I could somehow convince my colleagues from the "second circulation" that I do not intend to underestimate their professional contributions and that no one in the SD PRL has any such intention. But I must remind them of the cardinal truth that the founders of the SD PRL were not the authors of the dissolution of the SPD. Our aim was to salvage the accomplishments of the entire journalistic community, and we achieved this aim without harming anyone, because we were not personally involved in any vetting or repressions. No one can accuse us of such involvement. Hence, the intransigence with which attempts are being made to belittle the contributions and the cause of the SD PRL, and to ridicule and disintegrate it, is incomprehensible.

I believe that I should recall here something that happened at the founding session of the SD PRL on 20 March 1982. A group of my colleagues offered the view that that new organization had to be formed because the old one ceased to function and could respond only negatively, but there should be no reason why the new one should not be registered under the old name rooted in public awareness. Then it would not be necessary to even alter the rubberstamps. However, this view was rejected, partially owing to legal considerations and to logical principles. A new organization has to have a new name. No one at the time could have supposed that this idea would be revived under new circumstances, that again a group of colleagues would want to establish a new organization under an old name. But I hope that once again legal considerations as well as logic will win.

More concerning legality: if one wants to be quite orthodox in this matter, why not consider restoring the prewar Trade Union of Journalists of the Polish Republic, which also had been disbanded in disregard of the law. But nowadays no one would say that the genesis of the Association of Polish Journalists (SDP) was lawless—that would sound ludicrous. Thus, in the history of social organizations, too, facts have to be respected. Without that respect, growth cannot be expected.

**PRON Sponsors Agricultural Seminar,
Regionalization Policy Viewed**
*26000319 Warsaw PRZEGLAD TYGODNIOWY
in Polish No 5, 29 Jan 89 p 3*

[Article by Henryk Kin: "The Wailing Wall: Actually, We Have Never Had a Properly Conceived Agricultural Policy"]

[Text] "Ever since the immediate postwar period our agriculture has been, like a herd of sheep, led by rams [play on words, 'baran' in Polish means both a ram and a moron], and this is termed a stable agricultural policy." Dr Mestwin Stanislaw Kostka of the University of Warsaw is well known for his unconventional way of transmitting his thoughts verbally.

But he was not left without a riposte by the director of the Agriculture Department of the Bialystok Voivodship Government, former secretary of the Bialystok Voivodship PZPR Committee, and vice voivode for agricultural affairs, who declared, "I got a feeling that I also am meant. Well, if I am to be one of those rams, then at least I would want to be butchered by a solid butcher and not by an ass."

The temperature of the National Seminar of Agricultural Scientists and Decisionmakers, held under the auspices of the PRON [Patriotic Movement for National Rebirth] national and voivodship councils in Bialystok, soared so dangerously that the presidium called for an arbitrator.

Professor Tadeusz Hunek is known for his skill as a mediator. He declared, "For several years in Libya I had been observing the conduct of sheep and rams in a herd. I can declare authoritatively that these docile animals live together in unusual concord."

"Can there be mention of an idyll when a country that is not intrinsically poor distributes rationed scraps [of meat] to its citizens and is an indigent in the eyes of the world?" The scientist Kostka insisted on his rationale.

The seminar became an occasion for diagnosing Polish agricultural policy during the postwar period. This task was undertaken by Professor Jan Gajewski, an economist from the University of Wroclaw (affiliate in Bialystok).

"Properly speaking, we have never had a properly conceived agricultural policy; instead there was the implementation of provisional objectives that were continually being altered," he said, and no one contradicted him—therefore, this diagnosis has to be viewed as correct.

The Professor distinguished five characteristic stages. The first lasted from the [July 1944] Manifesto of the Polish Committee for National Liberation until 1948 when the countryside rolled up its sleeves with verve. But after 1948 the provisions of the Manifesto were forgotten and attempts were often made to "dekulakize" the countryside. It was then that the newspapers vied with each other in unmasking the kulaks who tried not only to meet their compulsory-delivery quotas but also to feed their families. The third stage was the formation of cooperatives—by 1955 a total of 10,000 of agricultural producer cooperatives had been formed, and the prescription for forming them was uniform: agitators would refuse to open the doors of firehouses until a sufficient number of "voluntary" signatures was collected. The fourth stage was the costly drive to establish state farms. During the fifth stage, on the other hand, the formation of, as Professor Andrzej Stelmachowski puts it, islands of socialism—collective farms, agricultural circles, which absorbed a substantial dose of subsidies and went bankrupt—was initiated.

"Please consider that there had never been a period when the entire agriculture, the entire countryside, and the more so the peasant, was the apple of the eye," Prof Gajewski ended his essay.

Inasmuch as our agricultural policy during the entire postwar period, since World War II, has been provisional by nature, it could not be relevant. Hence, among other things, ministers of agriculture were replaced like gloves, some being rewarded with foreign posts and others with advancement in domestic hierarchy. They had in common one thing: obedience to the doctrine of shortsightedness and keeping the society either uninformed or misinformed about what was really happening in the countryside. The latest example was provided

after last year's harvest by the head of the ministry of agriculture who announced that our grain harvest was higher than a year previously, whereas the GUS [Main Statistical Administration] estimated it at being several quintals per hectare lower.

"True, we have not had a stable agricultural policy, and we still do not have one," admitted, without beating about the bush, Edward Brzozowski, who was just appointed by the Prime Minister to represent the government as regards the regionization of agricultural policy, and who still keeps his post as deputy minister of agriculture and, in addition, and above all, is the director—with a salary of 27,000 zlotys [about \$27] monthly, of the famous Igloopol Agroindustrial Combine in Debica.

The traditional agricultural policy in Poland has not produced the expected results, so now a new prescription for the future has been composed: regionization. Does this mean that we shall witness revolutionary structural changes in the countryside? To answer this, let us consider the so-called Eastern Wall, commonly known as the Wailing Wall. This is the nickname for the six voivodships [in eastern Poland]—Suwalki, Bialystok, Lomza, Bialsk, Zamosc, and Przemysl—which Docent Zofia Wieckowicz of Wroclaw fittingly terms the economically underdeveloped area of Poland. It is characterized by a steady and highly negative efflux of population, a drastic decline in birth rate, and the lowest living standards, the lowest incomes, and lowest farm output per unit surface area in Poland.

"Owing to these negative processes, in the next 5 years the size of the State Land Fund in Bialystok Voivodship will increase by 100,000 hectares. We shall be dealing with an unprecedented economic depression in the history of the Polish People's Republic," comments the Bialystok Vice Voivode Julian Slarzynski.

Were the excursions of notable personages from the national capital, which as a rule tour western and northern agriculture in Poland, to be diverted eastward of Bialystok, they would encounter a "batyushka" [Orthodox Russian priest] who would comment as follows about the lives of his parishioners: "For a long time I have not been uttering blessings over a baptism or a wedding, but of funerals there have been aplenty. It sometimes happens that the parishioners can afford only a piece of bacon in payment for digging a grave."

But not only the eastern zone of the country is experiencing an economic regression. The area of unwanted land in Poland is growing. For every 100 private farms that are each year closed in Bialystok Voivodship, only 10 new farms are established, and the corresponding figures in other eastern borderland voivodship are 20-30 new farms for every 100 closed farms, compared with 63 new farms per 100 closed farms in Leszno Voivodship and 72 per 100 in Poznan Voivodship. Nearly one-half of the 780,000 hectares in the State Land Fund is

concentrated in 10 voivodships, chiefly the eastern ones, though also in the Olsztyn (39,000 hectares), Zielona Gora (37,000 hectares), and Gorzow (25,000 hectares) voivodships. Farmland has ceased to be something desirable both in eastern and western Poland, as well as in northern and southern Poland, except that the results in the east are the worst. What should be done in such a situation? And in general is there something left to discuss?

The political-administrative authorities of the eastern provinces have for years been trying to pressure the national government into differentiating its agricultural policy by demanding a Janosik-like [Robin Hood-like] (taking from the rich to give to the poor), pouring a rich stream of producer goods into the eastern provinces and increasing many times over the subsidies and credit available to these provinces. Bialystok Voivodship recently received 2.5 billion zlotys to organize new state farms and, after in addition its own budget was depleted of a dozen or so more billion zlotys for this purpose, three state farms were established, one each in Kieszcezele, Mielnik, and Grodek, and one each with a surface area of several thousand hectares. The farming cost per hectare exceeded 2 million zlotys in 1988.

Even now it is difficult to authoritatively evaluate this approach to restoring land to agriculture. Last year these state farms gathered more grain than they had sown, and they also are trying to learn livestock raising. It is now easier for gmina chiefs to reach agreement with three state farm directors than in the past when they had to bargain with several hundred pensioners-private farmers. But the propagation of state farms in eastern Poland is being sharply criticized by a large number of scientists and practitioners.

"They will be the most expensive hectares of land in the world," Professor Andrzej Stasiak calculated.

"This is an unworthy exploitation of land in a civilized country, which resembles the times of the 3-field [inefficient crop rotation] system," Prof Gajewski seconded him.

There also is a group of scientists such as the former Vice Chairman of the Planning Commission under the Council of Ministers Prof Eugeniusz Gorzelak, who believes that what has died of natural causes cannot be resurrected.

"The cost of establishing state farms is something this country cannot afford. There are only 5 acres of arable land to the statistical Japanese and 15 per the statistical Dutchman or West German, whereas we are not satisfied with 50. First, arable soil has to be properly utilized and uncultivated land should be left as is. Is that a heresy? No, that is economics-minded thinking," that formerly prominent personage urged.

There is no shortage in Poland of supporters of an intensive afforestation of the eastern zone, of all the farmland left fallow. Foresters operate with guidelines from the national government according to which 30 percent of Polish territory should be forested within 30 years. This is dictated by the needs of domestic and foreign lumber industry. And since lumber is a desirable commodity and its price is steadily rising, market mechanisms are a strong argument used by forestry.

"In addition, afforestation costs only a fraction of the cost of making land arable," the foresters argue.

Prof Gajewski and Dr Kostka reply that afforestation will mean an irreversibly infertile soil and its lasting loss to agriculture.

"At most, active planting of trees can come into question, not afforestation, which means complete devastation of the soil. In addition, drainage of the aquifers from the "Eastern Wall" should be halted, as should be investments in state-owned growing of industrial crops, in which man is only an object, not a subject. The thus liberated funds could be better utilized on private farms," they say.

In support of his thesis the Professor points out that final net output of private farming is 27 percent higher than that of state farming, while the expenditures on producing the same amount of food are only half as high. Moreover, state-farm property is colloquially considered as belonging to no one, and there can be no respect for no one's property.

It is an old truth that there are as many opinions as there are scholars. But also it is impossible to overlook the view of an economist, Professor Franciszek Tomczak, an influential farm politician. He believes that socioeconomic processes in agriculture will be prompted by mechanisms of the economic reform, of the free market. And if that is so, then backward regions and domains of scarcity will increase in size. One may resent such a vision of the countryside, but the laws of economics are merciless.

Do decisionmakers accept such a picture of the countryside and of agriculture?

"As director of my combine, I should be satisfied, but as a minister I should not be as satisfied. And indeed, in the last 10 years 'Igloopol' has increased its farm output by a factor of 43 and the volume of its farm processing operations by a factor of 40, while at the same time its industrial output increased by a factor of 20. This year we shall reach profits of 42 billion zlotys. That is why I am dreaming of an 'Igloopol' in every voivodship. And that shall be my aim as the government representative," declared Edward Brzostowski.

"But how much did 'Igloopol' cost? How many such combines can Poland afford nowadays? After all, you had built up your combine with the aid of tax exemptions and ministerial privileges," objected Prof Gajewski.

"What matters is that in my combine the employee is linked to his job for good and ill, like in Japan. And how many 'Igloopols' can Poland afford? That is a problem, where to get the money. All I know is that we must build more such concerns. Perhaps the funds for assistance to the countryside and agriculture should be combined, perhaps a special foundation should be established?" Edward Brzostowski replied.

On commencing his government, Prime Minister Rakowski promised priority to agriculture in the nation's development strategy. Prior to the seminar in Bialystok Deputy Prime Minister Kazimierz Olesiak declared to reporters that he is a definite supporter of the regionization of agricultural policy. The government representative at present knows enough to know that decaying villages have to be revived. But at the same time it has been reported that the output target for tractors in 1990 will be trimmed by 15,000 tractors, and moreover Minister [of Industry] Wilczek is making it no secret that the part of industrial output devoted to meeting the needs of agriculture will remain, as before, only several percent. It looks like the regionization we are dealing with is one [a compartmentalization] of government.

Party Activities Calendar 21 November-4 December 1988

26000240c Warsaw ZYCIE PARTII in Polish
No 25, 14 Dec 88 p 21

[Unattributed article: "Party Chronicle 21 November-4 December 1988"]

[Text]

Meeting of the Central Committee Politburo

22 November. The Politburo examined the problems in the operation of the workers' self-managements. It discussed the preparations for the Third All-Polish Theoretical and Ideological Conference.

29 November. The Politburo discussed the preparations of the proposed plan for consolidating the economy in 1989-90. The Politburo familiarized itself with the decisions of the Third All-Polish Assembly of the OPZZ.

23-24 November. The members of the Politburo and the Central Committee Secretariat along with Wojciech Jaruzelski visited the Slupsk Voivodship to acquaint themselves with the experiences in the various areas of social, political, and economic life.

On the second day of the visit to Slupsk, a conference of the members of the party leadership, heads of the Central Committee sections, and the first secretaries of the voivodship committees was held at the Voivodship Committee offices; during the conference they discussed the conclusions drawn from the visit and the talks in the voivodship.

Conferences and Meetings

25 November. Wojciech Jaruzelski, first secretary of the Central Committee, received a group of agricultural production cooperative activists, delegates to the 10th congress of the organization. Zbigniew Michalek, candidate member of the Politburo and secretary of the Central Committee, participated in the meeting.

Wladyslaw Baka, member of the Politburo and secretary of the Central Committee, met with the party and service aktiv of the Planning Commission of the Council of Ministers. They discussed the proposed changes in the functions and range of activities of the institution.

26-27 November. In Lodz, the Third Assembly of the OPZZ met. Among the official guests present was Wojciech Jaruzelski, first secretary of the Central Committee and chairman of the Council of State, who gave a speech.

26 November. Marian Orzechowski, member of the Politburo and secretary of the Central Committee, received a delegation of the CPC Central Committee visiting Poland in conjunction with the publication by the Book and Knowledge Publishers of a collection of works by Deng Xiaoping, "The Chinese Road to Socialism."

Zbigniew Michalek, candidate member of the Politburo and secretary of the Central Committee, received a group of 20 directors of associations, works, and enterprises of the USSR agriculture and food industry.

28 November. A meeting of the members of the Honorary Committee for the Celebrations of the 40th Anniversary of the Union Congress was held at the Central Committee offices. Wojciech Jaruzelski, first secretary of the Central Committee, heads the Committee.

The Commission for Economic Planning, the Economic Reform and Workers' Self-Management of the Central Committee discussed the proposed "Plan for Consolidating the National Economy in 1989-90." Wladyslaw Baka, member of the Politburo and secretary of the Central Committee, presided over the deliberations.

The Culture Commission of the Central Committee discussed the program to develop higher artistic schools. Andrzej Wasilewski, secretary of the Central Committee, presided over the deliberations.

30 November. A conference of the economic secretaries of the voivodship committees was held at the Central Committee offices. They reviewed the economic initiatives made in the local areas and the ways the party can influence the process of reforming the economy. Wladyslaw Baka, member of the Politburo and secretary of the Central Committee, presided over the conference.

2 December. Representatives of the highest party and state authorities including Wojciech Jaruzelski, first secretary of the Central Committee, and Mieczyslaw F. Rakowski, premier, participated in the annual ceremonies prior to the coming miners holiday. Wojciech Jaruzelski visited the Belchatow industrial district, and together with Premier Rakowski, he met with the merited miners' mothers in Silesia; in Zabrze he participated in awarding the honorary title of "Merited Miner of the People's Republic of Poland" and state orders and awards, and finally in the jubilee concert for the miners' holiday.

Andrzej Wasilewski, secretary of the Central Committee, received the chairman of a delegation of deputy ministers of culture participating in a Warsaw conference of managing bodies of publishing movements in the socialist countries.

In the Offices and Organizations

22 November. The Krosno Voivodship Committee discussed the state and prospects of housing construction in the Sub-Carpathian Region.

25 November. Marian Orzechowski, member of the Politburo and secretary of the Central Committee, visited the Legnica Copper Smelter. M. Orzechowski met with the miners of the production sections of the Lubin Copper Mine, where he participated in a meeting of his parent basic party organization.

28 November. The Gorzow Voivodship Committee discussed the need to change the style and methods of work. In the organizational part of the plenum, it named Zbigniew Falinski to the position of economic secretary of the Voivodship Committee, who had been first secretary of the City and Gmina Committee in Slubice.

30 November. The Sieradz Voivodship Committee discussed the problem of party work in the rural community.

Interparty Cooperation

21-22 November. In Bialystok, a 2-day seminar of the first secretaries of the voivodship and obvod offices of the PZPR and CPSU that cooperate with one another was held. Jozef Czyrek, member of the Politburo and secretary of the PZPR Central Committee, and Stanislaw Gabrielski, head of the Political and Organizational Section of the Central Committee, participated in the deliberations.

16-21 November. A delegation of the Central Committee of the Workers' Party of the DPRK visited Poland. The delegation was interested in problems of party work in Polish higher education. Boguslaw Kedzia, head of the Science, Education, and Scientific and Technical Advancement Section of the Central Committee, received the delegation.

2 December. The 12th Congress of the Portuguese Communist Party met in Porto. A PZPR delegation lead by Marian Orzechowski, member of the Politburo and member of the PZPR Central Committee, participated in the Congress. M. Orzechowski was received by Alvaro Cunhala, secretary general of the Portuguese Communist Party.

HUNGARY

Stabilization Characterized By Prolonged Shock, Tension, Conflict

25000077a Budapest FIGYELO in Hungarian
5 Jan 89 pp 3, 5

[Article by Dr Erno Kemenes, National Planning Office state secretary and MSZMP Central Committee Economic Policy Committee member: "On the Bumpy Road to Stabilization"]

[Text] The stabilization program must be perceived not as a 1- or 2-year program, but as an economic policy orientation applicable to an entire developmental period. By necessity, this period will be burdened by economic and social shocks, sharpening tensions and conflicts, which of course, also leave their marks on the 1989 people's economy plan.

The 1988 people's economy plan scheduled some radical changes to improve the foreign trade balance, including a turnaround and a very significant, 500 million dollar improvement in the convertible currency trade balance, a tense foreign tourism revenue plan, and on the basis of these, the reduction of the current balance of payment deficit to 500 million dollars. In regards to trade to be accounted for in rubles and in the related balance of payments the goal was to slow down the development of surplus accumulation which has been a chronic phenomenon for several years.

Considering the primacy of international economic interests, the plan projected moderation in domestic consumption, primarily in regards to consumer goods, but in part also through the reduction of investments.

Planned structural changes in production consisted in part of the rearrangement of market opportunities, and in part of significant changes in economic regulations. Within the latter category the following measures were of particular importance: tax reform which significantly reduced the tax burden and rearranged the tax structure, changes in producer prices and related changes in the price structure, tight money policies and savings incentives pursued by commercial banks, exemptions from limitations and benefits for efficient management and exporting—e.g. the wage club, export related import supply provisions for enterprises engaged in convertible currency exports and through the export competition system—and further, the modification of the regulatory and institutional system applicable to long term loss operations—reorganization and liquidation. Constrained reductions in consumer consumption were to be accomplished in part by wage restrictions, and in part by interest policies which stimulate savings, tighter credit, price increases which exceeded earlier increases, and the introduction of a personal income tax system.

External Economic Processes Were Better Than Expected

The already known data for the 11 month period last year, and data to be released in December indicate that a majority of the forced stabilization objectives planned for 1988 were fulfilled.

External economic processes surpassed expectations. Gains were registered as a result of changing foreign exchange rates in international money markets, as well as on the basis of the foreign exchange composition of debits and credits. All this served to moderate our foreign debt. The debt service balance is also somewhat more favorable than what was forecasted. There was more favorable demand at more favorable prices than expected for exported Hungarian goods: the volume of convertible currency exports increased by about 10 percent as compared to the 4 percent planned increase, and proceeds paid in convertible currencies increased by approximately 16-18 percent. In addition to available market opportunities, the successful stimulation of exports also played a significant role in accomplishing this. As a result of the favorable export picture, the planned 6 percent reduction in imports, which threatened with tense situations, could be relaxed somewhat. The positive convertible currency trade balance is more favorable than planned: it exceeded the planned level by 100 million dollars, resulting in an estimated 300-400 million dollar surplus.

As compared to earlier periods, the number of tourists and the amounts spent by tourists has increased. As a result the registered convertible foreign exchange income increased significantly—by about 12 percent—and amounted to 10 percent of the income produced by exports. Experience shows that the population's illegal foreign exchange income also increased. As a result of the lifting of travel restrictions, however, foreign exchange payments by the population increased substantially more quickly (about triple of the expenditures), and therefore the foreign tourism surplus was less than expected. It decreased by about 200-250 million dollars. Consequently the international balance of payment deficit is larger than originally planned, despite the more favorable results shown in merchandise trade.

With respect to merchandise trade to be accounted for in rubles, imports increased by about 3 percent, which is less than what was planned. Failure to deliver certain imported materials, such as chemical base materials, pine lumber and paper, lead to disturbances in production and supplies provisions, alternatively it forced increases in convertible currency imports. Also the total volume of exports fell behind planned levels, and was close to the 1987 levels. Failure to deliver on contractual export obligations, such as light industry, foundry and chemical industry products, rendered the fulfillment of import needs more difficult and caused sales and production disturbances in certain fields. As a result of the

slowing surplus accumulation, the merchandise trade balance was favorable in the end, and the balance of payment surplus is smaller than in the previous year.

Stagnating Production

Despite a hardening agricultural economy, favorably weather conditions yielded an outstanding harvest. Thus the total volume of agricultural products expanded by 6-7 percent, in spite of a decline in animal husbandry.

Due to reduced domestic consumption and socialist export opportunities which did not expand, industrial production was able to increase primarily in conjunction with the capitalist economic boom. Hungarian industrial sales in the domestic market and in socialist countries declined somewhat between January and November 1988, as compared to the same period in the previous year. At the same time the industrial sales volume in convertible currency markets increased in excess of 10 percent. Industrial production stagnated, or increased by one half of one percent during the entire year. According to detailed production statistics for January through October, production variation indexes for the various branches of industry are spread between reductions exceeding 7 percent, and growth values exceeding 12 percent. It is noteworthy that industrial cooperatives increased their production by 10 percent, and further, that in expanding convertible currency exports, small exporters showed a greater improvement in performance. Because of their greater flexibility, small enterprises adapted more readily to market and regulatory changes.

In regards to inventory accumulations, data pertaining to enterprise and cooperative inventories on hand for the first three quarters of the year suggests increased concerns about sales. Starting inventories at the beginning of the year increased by 22 billion forints by virtue of the enterprises and cooperatives own production, as contrasted to a desired reduction of inventories. Retail and wholesale consumer goods inventories also grew. Socialist sector investments over the year increased by 1.5 percent, as contrasted to a planned decrease in such investments. While central and council investments declined, enterprise and private investments increased by 7-8 percent, and 10 percent respectively, as contrasted to a projected increase of 2 percent for each of these investments sources.

Understandably, the moderating volume of investments, as such investments are subordinate to short range balance requirements, is one of the most debated issues of economic evolution. Some complain about the inadequacy of investments, others point to the low efficiency of investments, and yet others emphasize the unfavorable composition of investments. Last year's favorable development which points in the direction of evolution is the increased ratio of machinery investments, and within the socialist sector, the increase in the ratio of

machinery investments to two-thirds of all enterprise investments. The value of capitalist machinery imports approached the \$600 million level.

Business profits, and after tax enterprise resources are larger than planned. After tax profits are expected to exceed the 1987 level of disposable enterprise income by 20 percent, or 30 billion forints. Profits rang up by commercial enterprises and by financial institutions are even more favorable than those of industry.

State revenues, expenses and the deficit exceed the planned levels. Through taxation, the state takes a proportionate share of excess enterprise income. The anticipated 20 billion forints deficit is substantially—about 15 billion forints—smaller than last year's deficit, but it is still almost double the amount of the projected deficit not backed by reserves. Despite concentrated measures during the second half of the year, enterprise procurement could not be tied more closely to enterprise accomplishments, and it was not possible to maintain the sharing between the enterprises and the state, and the budgetary expenses within the planned limits.

The reach of the monetary sphere, and the level of consumer credits did not change significantly during the year. Interest on deposits was increased in order to stimulate savings. The increase in outstanding loans exceeded the increase in savings, and the net savings position of enterprises and of consumers did not materialize.

Structure and Market

Real consumption by the population dropped by about 4 percentage points. Considering the increased private importation of goods, however, the decline amounts to only 2 percentage points, which is close to the planned level.

Reduced consumption may be attributed largely to the joint effect of the approximately 16 percent increase in consumer goods prices and to central wage regulations. Nominal income also increased at a somewhat higher rate than planned. The increase of monetary and in kind income earned by society was considerable even in terms of its real value; wages, and income having the character of wages nominally increased by 7-8 percent, and the reduction in real earnings was smaller than planned.

Taken together, one can say that one of the larger values and accomplishments in 1988 was the fact that the stabilization program may be continued with a chance of succeeding.

The main source of economic concern is the slowness of adaptation. Constraints conveyed through regulatory means were unable to take the place of market constraints which force adaptation. In 1989 tasks related to the reorganization of ruble export capacities valued at

about 15-16 billion forints must be performed. Examinations show that a majority of the organizations could accomplish the market reorganization by virtue of their own strength. In order to effect the reorganization of large machine industry enterprises which found themselves in critical situations, and which were largely or exclusively oriented toward the ruble market, may receive government subsidies provided that they have a program by which to adapt to other markets.

Taken as a whole, the expected reduction in imports accounted for in rubles, and the peculiar structure of such imports does not invigorate market competition. At the same time we are seeking possibilities to expand such imports and to increase the market effects of such imports. Wherever these effects can be produced by the internal mechanisms of socialist partner countries, the sphere of interstate agreements and contingents will be reduced to strategic goods. The rest of the trade will depend on market interests expressed in the framework of direct relationships between enterprises. Agreements to this effect are being prepared, and appropriate regulations have been worked out. Market forms and economic interests (auctioning of contingents, special commercial organizations, subsidies based on product principles, etc.) are strengthened through the modernization of regulations relative to export-import businesses organizing on the basis of state contingents.

The strengthening of competition presumes the evolution of import competition. This is a risky undertaking for our economy which is sensitive to external economic changes and which struggles with delicate problems of balance. Despite these considerations we must strengthen competition. For this reason, in 1989 we will begin to abolish the complicated external defensive system of the economy. We will gradually liberalize convertible imports, and allow the evolution of import competition.

Gradual introduction of these measures is warranted by the avoidance of shock effects and the enabling of adaptation. According to some estimates, a relatively full liberalization of convertible currency imports would cause a deterioration in the trade balance and in the balance of payments in excess of 600 million dollars, and would result in a 2-2.5 percent reduction in production and consumption, even if purchasing power is severely constrained. This kind of change could not be financed on an international scale under present conditions, and the internal shocks caused would be hardly bearable. To accomplish full liberalization within two or three years is a realistic goal. In the process the liberalization of imports will expand to cover base materials and consumer goods which will be excluded from the process in 1989. The emergence of import competition will create a fundamentally new market condition this year in the machine industry, the electronics industry and other component parts manufacturing industries.

The government assists the evolution of market competition through subsidies provided for the establishment and operation of missing small and medium sized enterprises. Related tasks are described in a separate development program which is in the process of preparation at present.

In the framework of the government's deregulation program the abolition of anti competitive administrative restrictions has begun, and so did the drafting of a law which regulates competitive conditions. In the framework of the deregulation problem some 7,000 legal provisions will be reviewed by the end of 1989.

The evolving market competition may render superfluous some earlier government programs aimed at restructuring.

Relaxing the obligations posed by the wage management system creates new possibilities for rational manpower management and stimulates efficiency in regards to achievements. Administrative limitations no longer need to be considered insofar as increased earnings are concerned, wage limitations are the exclusive function of the economic situation of the organization, such as enterprise income and the capacity to pay taxes. Based on recommendations by the National Interest Reconciliation Council nominal earnings in business organizations should be increased within a range of 3-10 percent.

New opportunities that emerge in the capital market will also help enterprise adaptation. Development endeavors pursued by enterprises which thus far were based decisively on the enterprise's own income, bank loans or perhaps state subsidies, will find new conditions by virtue of making use of capital pursuant to the law on business organizations. In addition, early this year the stock market will begin functioning. It will provide institutional administration for various capital market transactions thus providing new opportunities for business organizations.

Pricing too is undergoing further liberalization. The definitive role of supply and demand can prevail in regards to the pricing of an increasing number of [goods and services]. The pricing authority of the government is increasingly limited both with respect to producer and consumer prices. The consumer prices of 67-68 percent of all products will not be subject to regulation ["will be free"].

In the contexts of external price effects, of internal market conditions and of the abolition of subsidies, producer prices will increase by 10-12 percent, while consumer prices will increase at a lower rate than they did in 1988. It is of fundamental importance to maintain price increases within planned limits described in the people's economy plan, through the stringent regulation of purchasing power.

The functioning and adaptation capacity of business organizations is also influenced by state subsidies. A government program provides for the reduction of subsidies through a three year period. This year subsidies will be reduced by about 32-35 billion forints. At the same time the government will enhance the tasks which face enterprises in regards to formulating a competitive economic structure, by providing subsidies. Thus, for example: in the framework of a modernized export competition system, with subsidies paid from the central technological development funds, by supporting central economic development programs, through various deductions in the framework of profit taxation, with contributions and benefits if foreign capital is attracted, the state funded development of certain areas in the infrastructure, and through state subsidies for the resolution of employment problems.

The Internal Financial Balance

The people's economy plan defined revenue processes in the people's economy by strengthening the harmony of revenues with production and with external and internal utilization processes. Maintaining control over the people's economy's purchasing power is of central significance, because the outflow of unsecured purchasing power would lead to devastating inflation on the one hand, and to excessive imports which would make the balance of payments collapse, on the other.

Modernization of the taxation system continues. Termination of the 50 percent profit tax and the 4 percent surcharge tax, the simultaneous discontinuation of taxes related to production and separate excises, as well as an increased opportunity to reclaim sales taxes constitutes a significant loss—about 10-12 billion forints—to the state, and results in a regrouping of income in favor of enterprises. The ratio of excise based on the value added by an enterprise will drop from the 1988 level of 44 percent to 41 percent in 1989, and the ratio of profit concentration will decline from 62 percent to 58 percent. An income regrouping of a similar character and extent favors personal income by virtue of having modernized the system of personal income taxation.

Along with the position calculated for the balance of payments, and with domestic savings, the state budgetary deficit must not exceed 20 billion forints. Along with the loss of revenues indicated above, the maintenance of the state budgetary deficit at that level can be accomplished only by stringent and significant expenditure cuts. In regards to budgetary restrictions only education and research constitute exceptions, both of which play a role in structural modernization.

The redistributive role of the state budget will be significantly reduced in 1989 by separating social security from the state budget, in addition to the reduction of revenues and expenditures. Social security functions as a self financing system, its cash turnover and balance

represents a direct movement of income between enterprises which contribute to the fund on the one hand, and the population on the other.

The state budget finances its deficit in the monetary sphere partly through the assumption of long term credits, and partly through the issuance and sale of treasury certificates and state bonds. Monetary credit resources consist of the attraction of foreign resources, savings accomplished by business organization—considered at the minimum level—and individual savings. Credit demand substantially exceeds the available resources. Financing the budgetary deficit constitutes a great burden, and there is no way by which demands for credit by businesses and individuals can be satisfied. The possibility of establishing a balance in the credit market continues to be [a matter of choice between] high interest rates and administrative restrictions. The government favors market solutions; in the interest of enhancing structural change it permits lower interest rates only in relation to investment credits. Interest rates determined by the marketplace must be paid after consumer credits and even after credits granted to the state.

The National Bank's means to influence the money supply and the availability of credit is expanded by active interest policies and by capital market transactions, in addition to the opportunity to refinance.

Within the overall stagnation of the standard of living, the mitigation of sharpening social concerns demands the broadening of sociopolitical actions and the increase of societal income. To compensate for the effects of inflation, and to bring about improvements in the supply of certain provisions, the people's economy plan includes an action plan costing about 18 billion forints, in addition to the automatic measures that were included thus far. In the area of sociopolitical actions in addition to efforts to partly preserve the real value of benefits, it is of utmost importance that local sociopolitical resources be broadened, and that the most disadvantaged, and persons entitled to low pension payments receive increased support.

Increased income provided through sociopolitical means and through interest income limit the possibility of increasing income earned through labor. Modification of the system of personal income taxation increases nominal earnings. Along with planned increases in consumer prices, one may count on a 4-5 percent drop in real wages. This, of course is unfavorable from the standpoint of stimulating accomplishments.

In addition to inflation, the burdens on the population are significantly increased by virtue of the fact that residential [mortgage] loan interests are determined by the market.

In the course of 1989 the government will examine ways in which personal income taxation may be further developed, including the alternative of taxing family income.

This Year's Goals in Numbers

Improving the balance of payments demands the evolution of stabilization processes and the strengthening of export orientation. Based on the domestic market, only those obviously narrow areas of production may develop which do not substantially increase imports and which do not burden the state budget. Based on arbitration with the socialist partners one may assume that through 1990, import quotas prescribed in agreements will not be fulfilled. Therefore there is no realistic possibility for the expansion of socialist exports, moreover, the enterprises will be forced already in 1989 to significantly reduce their exports by about 7-8 percent. The reduction of exports brought about by constraints affects the productive sphere broadly, nevertheless primarily the machine industry, the production of consumer goods, and certain fields in the food industry.

The continued fulfillment of the convertible currency import needs of the economy in 1989 demands that the volume of corresponding exports be increased by 6-6.5 percent. The satisfaction of this pressing need to export must have its foundation in structural changes. From the standpoints of both successful stabilization and evolution it is of key significance whether the economy can be placed on an export oriented growth course.

Our international payments situation and the balance of payments must be improved in 1989. By harmonizing the possibility of external financing and the interests of internal structural transformation, the deficit of the convertible currency balance of payments must be reduced by 50-100 million dollars, and the surplus of the balance of payments accounted for in rubles must be moderated by 100-200 million rubles.

The source for the forceful structural reorganization of production—some discontinuing and stagnating areas, and fields which in varying degrees show development—people's economy production taken as a whole is not expected to increase. The realization of qualitative transformation rather than quantitative increase is the main goal. Taken as a whole, industrial production will probably decrease by 1-2 percentage points, construction and assembly activities in the building industry will decline by about 2 percent, and agricultural production may increase by 0-1 percent.

Based on production which changes in structure but does not increase in the overall, a 400-500 million dollar export surplus in the trade balance would have to be achieved in order to improve the convertible currency balance of payments. If exports expand by 6-6.5 percent, imports may expand by 3-4 percent. To achieve our goal in regards to payments based on ruble accounting, we must have a 100-150 million ruble import surplus along with a reduction of 2-3 percent in import trade, and a 7-8 percent reduction in export trade.

Achievement of the desired posture necessitates a 1 percent reduction in domestic consumption. Within that public sector consumption will decrease by about 7-8 percent based on decisions made by Parliament, and individual consumption will remain approximately the same. Socialist sector investments may increase by 1-2 percent, and within that, enterprise investments by about 8 percent.

Interest Reconciliation

Along with interests tied to the balancing of payments, there is no way to raise the standard of living. At the same time a reduction in consumption similar to the one experienced in 1988 cannot be implemented once again. One must settle for the protection of the standard of living already achieved, reductions in real consumption, real income and real wages must be moderated already in 1989, and inflation must be turned around. Such action will draw away resources from initiatives that serve stabilization, nevertheless one must recognize: the stabilization of society is also an indispensable condition for settling the situation of payments.

Stabilization presumes the establishment and functioning of interest reconciliation mechanisms which can harmonize various endeavors to enforce interests in line with the requirements of stabilization. The absence of such mechanisms, and the destabilizing effects of autonomous political movements are capable of torpedoing the realization of the economic consolidation program.

The conception and the projections of the 1989 people's economy plan were formulated and adopted as a result of professional and political debate conducted in forums of government, interest representation organs and the party, as well as in the National Assembly.

In implementing the people's economy plan one must count on greater than usual uncertainties both in the external and the internal economy. The government continuously monitors external economic processes and changes in production, consumption, prices, income and the standard of living, and resorts to economic intervention only for purposes of correcting processes which substantially deviate from the plan. In the event of significant intervention the repeated reconciliation of interests may become necessary.

Obstacles to Foreign Capital Inflow Analyzed

25000077b Budapest FIGYELO in Hungarian
22 Dec 89 p 8

[Article by Robert Becsky: "Joint Enterprise Boom?"; first paragraph is FIGYELO introduction]

[Text] In the global economy the chief form in which operating capital flows is joining in partnership with already functioning companies, the purchase of stocks, mergers. There was no opportunity for these in Hungary

prior to 1989. The Law concerning Business Organizations provides a legal opportunity for so-called transfer investments. Nevertheless there are several obstacles in the path of attracting foreign capital.

Something has started. At least one may draw such conclusion based on data which shows how much foreign capital has been attracted. Despite the slow liberalization of regulations, between 1972 and 1982 altogether 14 [mixed nationality] joint enterprises domiciled in Hungary were established. In the following four years statistics already show 55 new joint ventures. And then, following additional relaxations in 1986, and the development and enactment of the Law concerning Business Organizations in 1988, by the end of November the number of joint ventures domiciled in Hungary increased to 230. Growth was particularly great during the past two years. Sixty-six joint ventures were established in 1987, and as of 30 November 1988 an additional 145 joint ventures came into being.

The picture is less favorable if we consider the amount of capital attracted. The total amount of such capital is approximately 200 million dollars. We can no longer be satisfied if we compare this amount let's say with the annual 500 million dollars attracted by Turkey or South Korea. The picture is even less encouraging if we analyze this capital inflow from the standpoint of its effects on the country's economy.

Seemingly, here too, the trend is encouraging. For example, the number of producing joint enterprises has increased continuously, to 130 by mid year. Such data, however, cannot veil the fact that the effect of these enterprises on technological development is minimal. And this relates to the fact that until the end of 1988 operating capital could be acquired only by establishing joint ventures. Accordingly, to enterprises the imported capital meant hardly anything from the standpoint of modernizing their means of production and their technology. It represented only an amount which corresponds to the founder's share. Beginning in the 1970's in developing countries the attraction of capital by already functioning companies played a decisive role in modernizing the economy, it took place in the form of buying up stocks, mergers, the establishment of subsidiaries and by making direct investments. As of today the annual amount of operating capital around the world may be estimated as 25-30 billion dollars, and about 80 percent of that amount materializes in one or another of the above forms. Accordingly, the starting point must be set beginning in 1989 with the opportunity for entering into partnerships with already functioning Hungarian enterprises. The Law concerning Business Organizations does provide a theoretical opportunity for such ventures beginning on 1 January 1989. Except for the fact that many other ingredients are missing. We do not know what, how and for how much we should sell, or, stated in different terms: we do not know how foreign capitalists could join into Hungarian enterprises.

Regarding the "what" question I would refer to a statement made by the Minister of Commerce the other day at the economic policy conference. He said that 43 large enterprises have given indications that they would like to see foreigners invest into their enterprises, if they purchased their stock. (Others talk about a list containing a similar number of enterprises which classifies "for sale" enterprises as "good" or "less good.") Doubtless, thus far enterprises have not have a great interest in attracting capital; they have not been able to modernize their machine parks for production. Also their exports, have declined, because that has appeared already in the joint venture form. [sentence as published] Not infrequently the director of the founding firm earned less than the director of the joint enterprise. And one cannot disregard the fact that if a foreign firm acquires majority ownership, it also acquires a right to change management—particularly if the enterprise is not really successful. Accordingly, the head of an enterprise acts, or would act against his own interest if he urged the importation of capital.

What we can sell—to where we can entice capital—depends on the buyer, of course. At any rate, it was a mistaken presumption that we could prescribe the kind of investor we expect to see, that the investor bring along technology with the capital, that he be an old fashioned, reliable partner, etc. (It is yet another matter when economic policy tries to influence capital flow by providing certain preferences—in many places with serious success.) Investors' intentions vary greatly. Some make their decisions on the basis of financial considerations expecting high dividends, while others are attracted by the low selling price (if stocks or full takeover are involved), and base their decisions on the difference between the purchase price and selling price of the stock. Developmental, technical viewpoints also play a role—these are more characteristic of direct investments—for instance for purposes of diversifying production, of transferring production to other geographical areas. But market strategy considerations too may play a role, e.g. acquisition of the majority of stocks from a competitor may be a suitable way to exclude a possible competitor. An investor's goals also depend on other circumstances. One thing is certain: those circumstances cannot be expressed in terms of a priority or priorities designated by the state. One should be cautious about trying to designate by virtue of a central decision enterprises for the modernization of which we wish to attract capital, i.e. we wish to sell stock. We are inclined to seek solutions in the form of campaigns. Rumors are that the above mentioned list was prepared on the basis of "central" inspirations, that enterprises rushed to prepare "autobiographies" (balance sheets), but to once again quote the Minister of Commerce: according to indications received from our capitalist partners, they do not even find investors.

It is not easier to respond to the "how" question either. The problem is not new, it relates to proprietary relationships. Without going into details concerning the

latter: enterprises do not possess proprietary rights, their rights are those of the administrator of assets. One could sell that too, of course, that too has a market value, but the government can take it back at any time. In contrast, the foreign investor wants property. An entry in the real estate register for instance provides an opportunity for taking out a mortgage loan, which is a common method of obtaining credit. But going further: enterprises under the government will be sold let's say by the Ministry of Industry—and the Ministry of Finance is the administrator of assets—and the money flows into the state budget. In this way too one cannot rule out the possibility that the value received will be returned to the enterprise, but we do have experience regarding the enforcement of the fiscal point of view. The situation is not easier in enterprises managed by enterprise councils. Moreover, in order to sell such an enterprise, it would have to be transformed into a stock corporation which would mean the liquidation of the enterprise council.

All these issues must be settled in the framework of the law governing organizational transformation—which, it seems, will come before the National Assembly only at springtime. On the basis of debate thus far stocks may be sold by an assets administration center, a holding company, a savings bank or a bank, assuming that these function by the rules of economics and not by the rules of the authority.

A further issue still not clarified: where will they sell the stocks of transformed enterprises? There is no stock market in Hungary, and abroad the stocks of unknown firms or enterprises are much rather bought and sold for gains to be made on exchange rate differentials. To top it off, share ownership by name, as specified by the law, is not considered an advantage. And just how the mobility of stocks can be ensured in the absence of convertible currency is yet another question.

The third problem cluster: what will determine the sales prices? Valuation of the assets—according to book value or market value—has not been resolved. Hungarian accounting practice does not use, is unfamiliar with, for example the consortium balance which treats the results of the parent company and of the subsidiary jointly. In Hungary they appear separately. The structure of assets differs, the machinery is overvalued, buildings and real estate are undervalued, and there is no record of intellectual property. (It is characteristic that the amortization of know-how became legally possible only beginning in 1987.) At any rate, there can be huge differences between the manner in which the seller and the buyer view the value of an enterprise reflected in a balance sheet. (One example: in the course of establishing a Hungarian-Italian joint enterprise the Hungarian party asked 2,000 forints per square meter of land. The Italian party offered 10 forints for the same on the basis of records at the Land Registry.)

The stock market is the place where stocks are sold, but as of today both the stock holder and the stock market are missing.

The question mark in the title does not cast doubt upon the significance of attracting operating capital. But it is equally true that we cannot expect miracles from importing capital. We must wait for that for a while, until the resources of the Hungarian economy are mobilized in a rational manner.

Soviet Natural Gas: Details of Agreement, Rationale Described

25000088 Budapest HETI VILAGGAZDASAG in Hungarian 7 Jan 89 pp 50-52

[Interview with former Deputy Prime Minister Jozsef Marjai by Andras Peto: "Jamburg-Tengiz: The 'Gassy' Agreement"; date and place not given]

[Text] The piping of natural gas should begin at Jamburg in January. The Soviet Union pays with that natural gas for Hungarian investments in the Soviet Union, which began in 1986. The decision makers did not spoil the public by providing details concerning the related Hungarian-Soviet interstate agreement either at the time the agreement was reached, or ever since. It is true though, that because of the peculiar construction of the agreement, its advantages and disadvantages cannot be judged unequivocally. Among other matters, this is what appears to emerge from the interview we conducted with the person most responsible for this agreement up to this date: Deputy Prime Minister Jozsef Marjai.

[HETI VILAGGAZDASAG (HVG)] What arguments supported the Jamburg agreement at the time of its signing in December 1985? Who prepared the expert opinions, what alternatives were considered? Did conditions improve since then, or did they become worse?

[Marjai] Our starting point was that toward the end of the 1980's and after 1990 the country's energy requirements must be satisfied. Moreover, this must be accomplished with the least investment, and, if possible, with the most favorable combination of energy. Two arguments supported Hungarian participation in the Jamburg investment. One was that the Soviet Union unequivocally stated to each European CEMA country: it will increase the volume of its energy resource deliveries only if they participate in the expansion of Soviet energy capacities. If not, the Soviets said, delivery of even the earlier volumes would become questionable. The other argument was the endeavor to satisfy the growing energy demand with an energy resource which can be used in the most diverse ways, and which is environmentally safe. Strong popular pressure favored the expansion of the gas distribution network in order to improve the gas supplies in the various settlements. What were the alternatives? Imported electrical energy was not an alternative, because only through Bos-Nagy-maros will there be a network in the early 1990's which links us with a high capacity electrical supply line in Austria, and for that we must pay in convertible currency. Large quantities of natural gas cannot be shipped by rail, while on the other hand Hungary is linked by

pipeline only to the Soviet Union. And insofar as coal is concerned, the excess needed can be purchased for convertible currency only, moreover mainly from overseas sources, involving rather high transportation costs. It could be seen already in 1985 that Hungarian coal is very expensive due to the unfavorable production costs, and not only could we not count on excess production, but domestic production had to be reduced. There will be a shortage of energy until the reactors at Paks are operational. Domestic oil production is declining year after year, and domestic natural gas reserves may be utilized only if we pursue a more considered exploration policy. Accordingly, the need called not for a theoretical solution, but for one which could be actually implemented. Having said all this I will repeat: we cannot purchase any more oil or coal from the Soviet Union; and although they have huge natural gas reserves, we may have access to those only if we participate in development. And we can pay for the utilization of those reserves by making in-kind payments in the form of delivering Hungarian goods. Expert opinions were rendered by the Ministry of Industry, the Office of Planning, and by the Crude Oil and Gas Industry Trust, with the involvement of experts from other organs. Prior to making these decisions, the subject matter was repeatedly discussed at governmental organs.

[HVG] Is there really a need for excess energy? Would it not be a cheaper and better solution to restructure the entire energy demanding Hungarian industry?

[Marjai] Calculations were made to that effect. One must realize however, that the installation of energy efficient equipment, the application of energy efficient technologies can be part of a long range program only, and that too is extremely expensive. In the early 1980's energy specific utilization decreased in response to strong economic and in part administrative constraints, but beginning in 1985—the arrival of the so called age of dynamics and abundance of money—these indexes deteriorated again. One can easily see the problems we have with structural change, and how slowly it progresses. Accordingly, between 1991 and 1995 the increase in energy demand cannot decline under any circumstances to the point that we could do without the energy deliveries originating at Jamburg. This is by all means true even if a low level energy demand exists. And it will be true after 1991, if for no other reason because public consumption will increase.

[HVG] What assurance is there that in the long run the Soviet Union will not reduce its energy resource exports promised in the usual annual commodity exchange and sales agreement—i.e. that it will try to substitute its energy resource exports with [something other than] excess natural gas from Jamburg?

[Marjai] That is inconceivable. According to the annual commodity exchange agreement the Soviet Union presently delivers 5 billion cubic meters of natural gas to Hungary. In signing the Jamburg agreement the Soviet

Union accepted an obligation to maintain the present level also in the future. Accordingly, until the year 2008 the Jamburg agreement may be viewed only as an excess quantity.

[HVG] Compared to global oil prices, CEMA natural gas prices are 5 years behind. Since the agreement was signed, oil prices dropped throughout the world. How long will it take for the Soviet Union to defray the Hungarian investment credit by way of natural gas deliveries?

[Marjai] Efficiency calculations supporting the agreement used natural gas prices which could be envisioned at the time. On that basis the Soviet Union would have defrayed the Hungarian investment credit contribution in 5 and ½ years. Present estimates suggest 6 and ½ to 7 years. Accordingly, the Soviet Union will deliver natural gas in lieu of Hungarian deliveries and work performance to defray the credit for 2 to 2 and ½ years longer than originally calculated.

[HVG] There is much talk about the fact that in the framework of the Jamburg investment our ruble income is earned by [providing goods and services whose forint value amounts to] multiples of the official commercial exchange rates, which is 29 forints beginning 1 January. Hungarian work performed at Tengiz provides us rubles at a cost of 180 forints or even more. Under these circumstances is this an efficient investment?

[Marjai] The Jamburg agreement consists of three parts. The 180 forint ruble exchange index applies only to the activities at Tengiz, but according to present calculations the actual figure will fall below 170 forints. The entire 760 million ruble Hungarian project must be viewed as a unit. Our negotiations with the Soviets were prolonged because we wanted to accept a relatively expensive construction and assembly work at the lowest possible rate of exchange. If I view the 760 million rubles as a unit, the exchange index is between 70 and 80 forints. If we project this in the context of a total of 37 billion cubic meters of gas to be delivered by the year 2008, the exchange rate will turn out to be between 40 and 50 forints. It is this figure that must be compared with the alternative possibilities, which would have required substantially larger investments and on top, we would have paid for the energy not in rubles, but in dollars.

[HVG] On the other hand, a significant part of the Hungarian shipments consists of merchandise which can be obtained for dollars, meaning that it expressly constitutes a grant of credit payable in convertible foreign exchange. To top it off, all this must be calculated at Soviet exchange rates, according to which one dollar equals 60 kopeks.

[Marjai] According to present calculations we are talking about a part of the shipments which must be paid for in convertible currencies. The value of this part is 190 million rubles. The source of this convertible currency is

the 15-year credit granted by the Moscow International Economic Cooperation Bank. The underlying agreement provides for a 6-year delay, meaning that we need not begin repayments for 6 years. This means that we will begin making payments for the goods we purchased in 1988 only in 1994, for a 15-year period, while on the other hand Soviet repayments in the form of natural gas deliveries will begin in 1989.

[HVG] Lately, on occasion, Parliament has expressed doubts about the Jamburg investment. Representatives would like to learn about the expenses and check whether the underlying concept is correct, but they can't: this major investment, together with Bos-Nagymaros is missing year after year from the annual budgets they adopt. Obtaining information is even more difficult because, at least in my experience, outside of a tight circle of insiders, there is no Hungarian expert—not even economists close to the cabinet—who knows every detail of the agreement. What is your view—supposing that the facts and conditions of the agreement had been publicized, would Parliament have approved it?

[Marjai] Considering all circumstances, I believe that if Parliament had discussed the Jamburg agreement it would have approved it, even if only after debate. Even more so, because energy investments which produce returns 3 years after the start of work, and which, from a practical standpoint are fully paid off within 10 years, are rare. There is no doubt that between 1986 and 1991 the investment represents varying degrees of burden in the "international commitments expense" column of the budget. The 1989 budget shows a figure of 20 billion forints in that column, of which 10 billion forints are expected to be earmarked for Jamburg. But in 1990 and 1991 the amount earmarked for Jamburg will be lower.

[HVG] After all, your faith in the 1985 decision did not flounder. You still believe that under the given circumstances the agreement you signed is beneficial.

[Marjai] First of all, it was not my decision. I participated in making the decision, and primarily in the negotiations. I accept that fact. I still feel that it is the best solution, compared to the possible realistic alternatives. I must add that in my view, our energy supplies after 1990 are not secured even with the Jamburg agreement, we will continue to have needs which are not satisfied even for natural gas. If we were to import more gas from the Soviet Union than what we need, the energy resource which we purchase for rubles and which we obtain at a relatively low cost may substitute oil products which we may export for convertible currency. Even today we export some of the Soviet oil by-products for convertible currency.

[HVG] What kind of advice would you give to the person who took over from you the responsibility of supervising the Hungarian investment at Jamburg?

[Marjai] Three fundamental requirements must be enforced carefully and consistently on a daily basis. First: we ought to fulfill our obligations in an honorable manner, but we should not do more than what our obligations are. Second: we must exercise very stringent and continuous control over participating Hungarian enterprises so that in Hungary they account for only actual prices and costs. Third: we must keep in constant touch and must argue with our Soviet partners so that they recognize all the work performed by Hungarians as well as all the additional expenses incurred as a result of Soviet failings, and that the ratio of commodity deliveries increases vis-a-vis the construction and assembly activity. All this demands very intensive work also from Peter Medgyessy, the person who took over from me the administration of the Jamburg agreement.

[Box, p 51]

Opus in Three Movements

The value of the Hungarian-Soviet Jamburg Agreement signed on 30 December 1985 is 758 million rubles. For practical purposes it will be in force until the year 2008. This amount represents the value of Hungarian construction and assembly work, deliveries and payments between 1986 and 1991. The first item is divided into two phases (1986-1988 and 1989-1991). It covers construction and assembly work performed or to be performed in Tengiz, Khazakstan, at a cost of 260 million rubles. This includes the construction of barracks for 5,000 workers, the construction of the so-called industrial base (repair shops, storage facilities), and the installation of equipment manufactured in Italy and purchased by the Soviet Union at two petroleum distillation plants. Some call these two work places "lines," others call it "rows," and yet others: "main collecting facilities." The equipment makes it possible to separate crude oil, natural gas and sulfur from the raw material delivered from exploration sites to these work places.

The next item to which Hungary has committed itself is the delivery of 225,000 tons of large size steel pipes required for the construction of a gas pipeline between the Siberian town of Jamburg to the Western border of the Soviet Union. Hungary buys the steel pipes for convertible currency and effects deliveries between 1986 and 1990. Equally, during the same period Hungary has to, or had to purchase for convertible currency among other matters 212 Japanese manufactured Kato type excavators, and 275 Japanese Komatsu or American made Caterpillar pipe laying machines and bulldozers, complete with spare parts. In addition to these purchases and deliveries, the Agreement obligates Hungary to provide the Soviet Union a convertible foreign exchange loan in the amount of 15 million rubles.

The third item is valued at 309 million rubles. It commits Hungary to deliver machinery, equipment, materials and other goods, including 670 Ikarus buses, 2500 Tajga type mobile homes, and a lot of radio and kitchen equipment between 1986 and 1990.

In lieu of all the above the Soviet Union delivers to Hungary natural gas in the following quantities: 500 million cubic meters in 1989, one billion cubic meters in 1990, 1.5 billion cubic meters in 1991, and 2 billion cubic meters annually between 1992 and 1998. These deliveries are to take place over and above the deliveries agreed upon in annual commodity exchange agreements. Further, the Soviet Union agreed that "during the 10-year period following 1998, natural gas deliveries to Hungary will continue in the framework of reconciled plans applicable to given periods, in lieu of the shipment of goods by Hungary." (The Agreement itself does not state, but the Hungarian party understands that the latter provision represents annual deliveries of 2 billion cubic meters of natural gas.) The price of natural gas will conform with prevailing CEMA prices. Interest at a rate of 4 percent will accrue after work performed, deliveries effected, and foreign exchange credits granted by Hungary. In the event that the value of contractually agreed upon Soviet natural gas deliveries exceed the amount of Hungarian credits, as that amount is increased by interest payments, the Hungarian party will effect payment by delivering goods.

In Hungary, one of the most debated conditions of the Agreement pertains to the fact that with respect to Hungarian work performed in Tengiz charges related to construction and assembly work are based exclusively on price schedules which are valid only in the Soviet Union. This occurs in the context of a CEMA agreement reached at one point during the 1960's. These prices substantially differ from standard prices charged by Hungary, and therefore the ruble exchange index applicable to work performed at Tengiz (i.e. the required investment expressed in forints in order to produce a value of one ruble) is a multiple of the official, commercial exchange rate.

Causes, Effects of Rising Interest Rates Analyzed
25000078a Budapest FIGYELO in Hungarian
22 Dec 88 p 29

[Article by Istvan Garamvolgyi: "The Escalating Interest Rates"]

[Text] The second year of seeing the new banking system in operation has provided us with numerous experiences and lessons. Among other things, it has shown how the fluctuation of interest rates, and the drastic 1988 rise in interest rates, influences economic processes.

At the beginning of the year, and for a while afterwards, interest rates were modest relative to later [economic] developments, generally reflecting the levels of previous years. Thus, for example, basic interest rates on residential savings accounts rose only by 1 to 1.5 percent between 1984 and the end of 1987, and the interest earnings of 1-year deposits, even with premiums, did not reach the 10-percent level. Among the types of residential savings-investments, only the medium-term bonds paid interest in excess (by 1 or 2 percents) of the

10-percent level. Interest rates on bank-issued refinancing credits were 11 and 12 percent, while those of accounts (including quarterly increases) 3, 4, 5, and 9 percents.

In the residential sphere, the escalation of interest rates was stimulated by a growth of account interest rates and the simultaneous rise in interest premiums, the combination of which totaled some 4 percent. In principle, such a sizeable increase in interest rates made the savings forms offered by the OTP [National Savings Bank] (interest-paying accounts, postal savings, retirement deposits) more competitive, since their length of term ensured earnings at the rate of 15, 16, or 17 percent.

Of course, the escalator did not come to a halt. In order to protect the marketability of the bonds that were issued earlier at the rate of 11 to 12 percent, their issuers and cooperating banks augmented the interests due for 1988 by 3 to 4 percent, and new bond issues made their appearances on the market with interest rates approaching 20 percent. (On October 25, the Phoenix Clothing Marketing Enterprise issued its bonds with exactly 20 percent interest rate.) Nor did it surprise anyone that, of all the securities newly introduced in 1988, it was the Treasury bills whose rate had to be altered after their issuance, or that 18 percent became the new interest ceiling for certificates of deposit. All in all, during the year interest rates on the various forms of residential savings increased by 80-100 percent; from 10 percent typical at the beginning of the year to 18-20 percent by the end. And this is due not only to inflation and the double-digit increase in consumer prices, but also to the 20 percent tax levied against earnings from savings.

Finally, what did all this add up to? At the end of October, the sum of residential savings (which also contains the forint value of hard currency and travel accounts held by the OTP) was only 0.9 billion forints higher than at the first of January. At the same time, however, the total of interest-bearing deposits has been reduced by 9 billion forints; in other words, the increase was in hard currency, automobile-purchasing and KST accounts. Another factor illuminating the ineffectiveness of raising the interest rates: While in previous years about 3 out of every 100 forints released to the population remained in their hands and contributed to their ability to save, this year only pennies remained there, the rest quickly flowed back to the national bank. In other words, even in the midst of inflation, the consuming and purchasing disposition of the population demands more cash, and there is little or none remaining for savings. (Here we might mention a special Hungarian characteristic of the present inflationary process: Reduced purchasing power usually goes hand in hand with the rapidly growing volume of money; in Hungary, however, there was a deceleration in the increase of cash in circulation during 1988.)

The economic management sector was not spared the escalation of interest rates either. The credit demand of management units stimulated, and restrictions placed on

refinancing expressly compelled, banks to bolster their resources using, among other means, the canvassing of accounts. At the beginning of the year, the typical interest rates offered (at 1, 3, 6, 9 or 12 months of binding) were 4.5, 7.0, 9.0, 9.5 and 10.5 percent. In December, commercial banks promised higher interest rate (14 percent annually) for one month than they did for a year in January. Interest rates on deposits bound for 1, 3, 6, 9 or 12 months have increased by 311, 218, 180, 176 and 162 percent, respectively.

The national bank also contributed to raising the price of credit: Beginning with October 1, 1988, it raised by 2 percentage points the interest rate on refinancing credit having a repayment period longer or shorter than one year, and by 3.5 percent the interest on bank deposits made at the institutions' discretion. In theory, such an increase by the national bank (combined with the interest gap of the commercial banks) should reduce the demand for credit. In our country, however, judging by the supply of deposit interests, even an interest rate of 20 percent does not seem to effect demand. (It cannot be proven, but is commonly said that in financial transactions among enterprises, even 30 percent interest rates can be found.)

It appears that in the economic management of 1988 it was not the interest rates set by the national bank, but rather the escalating increase in interests on money market deposits, the universally condemned interest race and the increasingly more expensive hunger of managers for credits that stimulated the growth of interest rates from the 12-17 percent level that prevailed around the middle of the year.

Tungsram Operating Capital Increased
25000100b Budapest HETI VILGGAZDASAG
in Hungarian 28 Jan 89 pp 4-6

[Interview with Andras Gabor, Tungsram chairman and president, and Sandor Demjan, Hungarian Credit Bank chairman and president, by Katalin Bossanyi: "Tungsram Inc.: Increased Capital—the Obvious Solution"; date and place not given]

[Excerpts] In very late 1988 Tungsram Inc.'s operating capital was increased by 6 billion forints. The large-scale financial transaction enables the long-time corporation to appear on world money markets as a true stock corporation. Tungsram, along with Philips, Osram, General Electric, Sylvania and Thorn are among the world's largest manufacturers of lighting sources: Tungsram's market share exceeds 5 percent. Our presentation provides a panoramic view of the revival of an international corporation which was successful a long time ago. [passage omitted]

The Happy Prince

We asked the following questions from Andras Gabor, Chairman and President of Tungsram Inc., a company which has awakened from its Sleeping Beauty dream on 31 December 1988:

[HETI VILGGAZDASAG (HVG)] At the time you were appointed as the Tungsram head in the middle 1980's you stated that they want to examine the possibility of transforming Tungsram into a stock corporation, including, among other circumstances, a possibility to organize a holding corporation above the domestic and foreign corporations of Tungsram. At this time you realized a different conception. Why?

[Gabor] My conception has not changed. Times and our judgment have changed. In earlier days state organs viewed our corporate existence as a mere formality, it did not really "fit" into public thinking not to nationalize a large corporation like ours. Even though that is what actually took place! The State Planning Commission determined the development of the corporate organization, while the substantive work progressed in a highly bureaucratic manner. For this reason I now decided to accelerate.

[HVG] By virtue of this action—through various levels of transmissions—the Hungarian Credit Bank became Tungsram's largest owner. Does this mean, for instance, that at present you are an employee of the Hungarian Credit Bank?

[Gabor] I was appointed as chairman and president by the Board of Directors toward the end of December. At that time I wrote to the Ministry of Industry requesting that they discontinue the listing of Tungsram as part of state administration, and to terminate their legal supervision. Henceforth the leaders of Tungsram will be appointed by the owners, and I hope that corporate management and interest will be determined from the perspective of true ownership.

[HVG] At present the state's share in Tungsram amounts to 8 percent, altogether. How did social organizations, your fellow executives, and in general the collective respond to your decision, which is unique in the recent history of Hungarian industry?

[Gabor] I had arguments with party and trade union representatives. At the outset they were concerned that we would sell out state assets. Thereafter I succeeded in convincing them on a factual basis of the utility and societal benefit of our actions. Also my fellow executives confronted me with some "fear." Many asked whether they would be needed in the future. I had to explain to them that this was the only way in which we can adapt and remain competitive. We are contemplating new forms of direct ownership involvement—including the purchase of stocks—by executives, employees and workers.

[HVG] What provided the decisive thrust to the present radical change in ownership?

[Gabor] I summoned four foreign expert consulting firms. They "x-rayed" our organization, our chain of command and management system, as well as our quality improvement programs. Their reports clearly revealed that Tungsram contains all the elements needed for an actual international stock corporation. "Except" that its capitalization is worse and more lax than that of its competitors, it has a larger number of employees than needed, and so on. They also recommended ways in which we could appear on foreign money markets. I was able to persuade the banks to accept these conditions. At present we are developing a program by which these things can be realized.

[HVG] What immediate advantage will Tungsram experience as a result of the increased capital?

[Gabor] Our cash flow concerns are coming to an end, we will be able to manage peacefully, without taking out loans. This means that also our profits will increase as a result of not having to pay interest on loans. This is not merely the semblance of improvement: through improved capitalization our activities will become more efficient and more profitable. In addition, we will quickly increase our exports. Thus, compared to 400 million forints of profit in 1988, in 1989 we may realistically count on 1.5 billion forints in profits, after which we can pay dividends at a rate of 10-12 percent.

[HVG] What kinds of financial advantages are presented by becoming international? Have you completely given up with the earlier concept of a holding corporation?

[Gabor] No. We will not have a holding corporation in Hungary, instead we will have one in Amsterdam, for the administration of our finances in foreign markets and for a more efficient capital supply. This holding corporations will quite naturally pay taxes pursuant to Dutch rules, will organize further joint enterprises, will accumulate further capital for our existing foreign enterprises, and will regroup resources according to needs among our firms. On the other hand the proceeds need not be converted into forints.

[HVG] What steps will you take in Hungary to improve your income and to change your structure?

[Gabor] Despite rumors, 1988 may be considered a successful year. Our profits exceeded planned levels, and since the market is good on a long-term basis, our future too appears to be well founded. Also our international credibility has increased by virtue of the present increase in capital. In the near future we will sign an "investment package deal" amounting to 20 million marks with a bank in West Germany.

[HVG] Accordingly, you view your situation as favorable. Nevertheless, what do you consider as Tungsram's point of vulnerability?

[Gabor] By now its not so much the lack of capital. Instead, the question is this: to what extent can we "translate" the money that can be acquired into new, modern products. Unfortunately, the intellectual background of Tungsram has weakened. For this reason we are once again reviving the Imre Brody Research Center. Its effect may be symbolic as well as a realistic boost to the newly functioning and functional Tungsram Stock Corporation.

The Incognito Owner

Behind the scenes of Tungsram Inc.'s 6 billion forint increased capital we find this large enterprise's most significant Hungarian Creditor: the Hungarian Credit Bank. We asked chairman and president Sandor Demjan of the transaction.

[HVG] Why did the Credit Bank purchase Tungsram?

[Demjan] The Credit Bank did not buy Tungsram. We played the role of the intermediary only on behalf of our principals. Many are interested, but the full circle of owners has not yet evolved.

[HVG] Then I will ask this: Tungsram is managing on the basis of a 4.5 billion forint short-term credit, and it "stands in line" at the doors of banks [to collect] 1.5 billion forints. Most money is owed to Tungsram by the Hungarian National Bank. Is this why the operating capital of the stock corporation was raised by 6 billion forints?

[Demjan] Tungsram is a typical example of how a dynamic, developing, internationally competitive large enterprise can be rendered impoverished as a result of stalinist economic management and organizational mechanisms. It is my firm view that the cause of their cash flow problems is not internal, they cannot be traced to mistakes made by management. Instead, their problems can be attributed to the distorted capital flow experienced in Hungary during the past years and decades, to exaggerated state withdrawals and to the low level supply of capital. Our bank considered Tungsram credit worthy in the past, and will continue to do so in the future. This is why the previous owners, including the Hungarian State, the Foreign Trade Bank, the Monetary Institute and the Hungarian Credit bank decided to implement this increase in capitalization.

[HVG] From where did you obtain 6 billion forints all of a sudden?

[Demjan] Just as there are medical secrets, there also exist bank secrets.

[HVG] What are you going to do with the Tungsram stock? I assume that the Credit Bank will profit on the transaction only if you sell the stock abroad at a price above face value.

[Demjan] Since we are dealing here with an enterprise which has a good performance record, what you have indicated may also take place. The capital thus acquired will be spent in various, equally competitive segments of the Hungarian economy in the form of credits for developmental purposes.

[HVG] How do you intend to sell Tungsram stock abroad?

[Demjan] It is the joint intent of the owners to retain Hungarian majority ownership even after stocks are sold abroad. This means that Tungsram will function as a national enterprise. We do not intend to sell Tungsram shares to even the largest of competitors. On the other hand we envision opportunities through our connections to "organize" partners who up to now utilized the products of the Hungarian enterprise. The auto industry may be one example. Similarly, stocks may be purchased by countries whose manufacturing culture has not yet evolved.

[HVG] Rumors are that your South Korean clients want to join Tungsram.

[Demjan] We are talking about partners much closer than the South Koreans....

[HVG] What rate of dividend makes it worthwhile for interested persons to buy Tungsram stock?

[Demjan] As a result of its increased capital Tungsram can double its capitalist exports within four years, and will modernize its internal structure and management methods, as well strengthen the sense of ownership in its management. The planned dividend appears as a rather attractive investment. But I should note here: an owner of capital who has foresight will leave the dividends with the enterprise, thus aiding the enterprise's development. He is interested only in the growth of the current price level of stocks.

[HVG] Does the Credit Bank intend to purchase additional Tungsram stock?

[Demjan] Yes, but in this respect there are some bank regulatory limitations. We may become the owners of other companies only to the extent of 20 percent of our operating capital. The foreign partners too insist on our participation.

[HVG] From the 6 billion forint capital increase, thus far only 2 billion forints were received. When do you expect to receive the rest?

[Demjan] As I see it, 75 percent of the value of Tungsram shares will be available during the first quarter. Otherwise, we are prepared to provide financing if a credit worthy company approaches us with an intent to purchase Tungsram stock.

[HVG] It appears to me that I conversed here all along with the largest owner in incognito. What is the precise legal situation: what size is the Credit Bank's interest in the large enterprise before the Tungsram stock is sold?

[Demjan] It is sizeable, and I hope it will remain large. We are talking about a world famous, competitive enterprise. But Tungsram is not the only one in Hungary. Our bank intends to increase its direct capital participation in several other Hungarian stock corporations which show dynamic development.

Tungsram Balance Sheet

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Net Revenue (billions of forints)	8.3	8.8	8.2	8.2	8.7	7.8	8.4	8.7	9.4	10.5	12.0
Capitalist Exports (in billions of forints)	3.1	3.6	3.4	3.8	3.9	4.3	4.5	4.4	4.8	5.7	6.4
Profits (in millions of forints)	925	117	-108	221	-624	182	468	675	821	841	400 ¹
Employees	35700	35100	32900	29700	28800	24500	23500	20937	20472	19719	18777

¹Expected Results

History in a Nutshell

1896: Founders—Bela Egger and partner. Name: United Electrical Inc., for the manufacture of incandescent bulbs using carbide filaments pursuant to the Edison method. Lipot Aschner joins the company as a book-keeper. In 1921 Aschner became president of Tungsram which by then was world famous, and remains the company's managing director until his death in 1952.

1904: Sándor Juszt and Ferenc Hennemann discover the tungsten filament incandescent bulb. 1906: stockholders decide that the company's main profile is the manufacture of light sources. The company's name is changed to United Incandescent Filament, Inc., to be registered in 1909 under the internationally protected trade mark "Tungsram." (The trade mark name is a combination of the English "tungsten" and the German "volfram.") 1917: The manufacture of radio tubes begins. 1921: Technical university professor Ignác Pfeiffer establishes

Hungary's first industrial research institute. Golden age: this is where inventors Imre Brody (crypton lamp), Erno Winter (oxyde cathode ray electron tube), Pal Selenyi (the ancestor of the copying machine) and Tivadar Millner (the large crystalline tungsten metal) exert their endeavors. 1938: the manufacture of fluorescent lights begins, successful experiments with television are conducted. (The latter came to an end as World War II began.) 1951: A vacuum technology factory is established. 1952: The manufacture of diodes, and later of semiconductors and microelectronic components begins. 1957: the manufacture of black and white television sets begins. 1962: Large scale industrial establishments in Zala, Kaposvar, Kisvarda and the Hajdu region. 1983: As a result of bankruptcy reorganization the company reestablishes part of its machinery plants as separate organizations. 1987: Joint enterprise with Belgian participation is established in Budapest for the exporting of lighting systems. 1988: the Tungfram organization consists of 12 factories in Hungary and 16 establishments abroad. Production and joint enterprises function in Austria, the United States and in Australia; distribution centers and commercial offices operate in Zurich, Frankfurt, Stockholm, Oslo, Helsinki, Brussels, Barcelona, Tokyo and Dublin.

Economic Harm From Unreported, Untaxed Income Described

25000087 Budapest *MAGYAR NEMZET* in Hungarian
3 Jan 89 p 3

[Article by economist Dr Ildiko Edes, Scientific Associate at the Economic Research Institute, under the rubric "Renewing Economy": "The Visible Consequences of Invisible Income"]

[Text] In our changing and constantly reformed economy invisible income earned by people is not a negligible factor from the standpoint of understanding the processes. The significance of this factor is also shown by the fact that this issue was chosen as the first topic in the recently started series Statistical Forum. The following study is based on that presentation.

There are many opportunities for people to acquire invisible income. The chief methods are as follows: (1) performance of work and the avoidance of taxation (moonlighting on the job and tax fraud); (2) supplemental wages (tips, gratuities, money passed under the table); and (3) income earned from legally and morally condemnable activities (corruption, embezzlement and similar matters).

Estimate and Questioning

The remainder of this discussion pertains only to income which qualifies as income derived from an economic activity. I will not deal with illegal income producing activities. (On the other hand I cannot omit rule violations, such as harming consumers or tax fraud.)

For decades the average person has been preoccupied with the idea of how much money he could make from another invisible source, while economists for many years have tried to approximate the size of such income from the standpoint of the economy as a whole. In preparing estimates on a national scale, most of the time one starts out with the magnitude of the amounts that change hands in individual cases. Several methods are used throughout the world to estimate invisible income—estimate, for that is the only possible approach one can take due to the character of such income. One method known from tax statistics is the comparison of income, production and sales data.

The Economic Research Institute performed the first such examination in Hungary. The 1983 analysis made an attempt to approximate the macroeconomic size of invisible income in 1981. The method used was the so-called expert estimate, because for various reasons, from among all the methods known worldwide not many could be applied in Hungary. As a matter of fact, the only one which could be applied was the method of questioning and "guesstimating" (i.e. expert estimate). The method relying on tax statistics may also be used after the personal income tax system has accumulated some background history ["has acquired some past"].

The estimate covered a broad area. Notably it included cases which fall under the Criminal Code of Law, as indicated at the beginning of this article. This aspect of the work was accomplished by analyzing criminal statistics. The resultant figure, as applied to the economy as a whole was 100 billion forints. Considering the nature of such estimates, estimates related to criminal activities had a broad base. Within the 100 billion forint figure 40 percent may be allocated to income related to work performance. Counting tips and gratuities we are considering 60 percent already.

In the period following the initial analysis, analyses failed to quantify income secured from activities involving serious law violations, and focused on moneys related to economic anomalies. In the framework of this research an assessment made by the Economic Research Institute with the help of the Central Statistical Office in 1986 represented a major step forward. At that time they used the survey method. The questions asked, however, focused on expenses, not on income. Interviews at some 13,000 to 14,000 households focused on types of family expenditures which represent invisible income to others. The method itself limited the kinds of income which could be revealed in this way. The questions focused essentially on tips, gratuities and on moonlighting on the job in a broad sense (i.e. for instance they included instruction provided outside of an organized framework or house cleaning), and on causing monetary loss to consumers.

The Budget Reimburses Itself

On a national basis the study shows that this kind of loss amounts to 20 billion forints. The assessment however, could not provide a really true picture of the situation.

This is necessarily so and flows from the character of the study itself. After all, the respondent could not report tips paid by other members of his or her family; many do not double check whether stores overcharge them; in small municipalities where there is only one physician and the person asking the questions is also a local resident, people would not dare to admit the passing of gratuities to the physician, because the physician would get into trouble, etc. For this reason the Institute reassessed these items based on the 1985 statistical data, and once again used the approach of expert estimate. The amount thus derived was between 45 billion and 50 billion forints with respect to the given items. Within that figure work related expenses constituted 42-43 percent of the total, expenses of a redistributing character made up the remaining 57-58 percent. This, at the same time also means that the work product in the economy is larger than what can be evidenced through statistical means.

All the effects cannot be described here for lack of space. Therefore, in the absence of presenting a comprehensive analysis, I would like to illuminate some of the more important aspects of the problem.

One important aspect is that certain types of income (tips, gratuities) replace unpaid wages. They supplement low wages—sometimes excessively, at other times only barely—and bring up such low wages to levels which permit a given activity to continue. It will continue because such activity is needed by society and by the smaller community. Let us imagine a situation—this can be done on a theoretical basis only, of course—that the entire population forms an alliance, and beginning tomorrow no one gives any kind of tip or gratuity anywhere. Considering basic wages paid in trades dependent on tips—minimum wage, around 3,000 forints—the alliance not to pay tips would render bankrupt a significant part of the service sphere. Workers unable to make a living out of their wages would leave their work places in mass proportions, forcing the enterprises which run those work places to close. Compared to other types of work, also the mid level cadres among health care workers (nurses, therapists, assistants, ambulance workers in short supply already) who receive low salaries because of the extra income could decide to leave their jobs. A radical reduction in the number of health care service providers would render health care services fully bankrupt.

Another reason why low wages are significant from the standpoint of the economy is that with the introduction of the personal income tax system the sharing of the public burden also became the center of attention. Some stated their view according to which invisible income fails to share the public burden, because such income is not subject to taxation, and therefore the burden of others increases. As a result of tax revenues which did not materialize, a shortage appears on the revenue side of the budget, and to fill this shortage the rest of the taxpayers pay even more taxes. This approach, however,

disregards the fact that in fields of endeavor financed by the budget (e.g. health care) the budget registers savings on an expense not only by paying low wages, but also by not paying a percentage of [what would be higher] wages in the form of contributions to the social security fund. And further, this approach also fails to recognize the fact that in service areas which operate with recipients of tips but otherwise low salaried workers the budget registers revenues (as a result of personal income taxes) precisely because the low wages reflect neither the direct nor the reproductive cost of labor. Accordingly, in my judgment, it is unwarranted to talk about lost budgetary revenues in these cases, because the budget reimburses itself through other channels. And it is the method by which the budget withdraws funds that causes the seeming inequality in sharing the public burden.

We are inclined to think—unfortunately, in the course of a TV interview I myself expressed this view—that all the methods by which invisible income is earned through all kinds of surplus production results in reduced performance in the visible economy. If we view invisible income in detail, the relationship reveals itself in a different light. Nor will income which requires surplus production necessarily retard performance on the primary job, because such retardation depends far more on work organization than on the opportunity to perform extra work. To the contrary: the reverse is true. If the primary job is accurately planned and exhausting, the worker will not be able to moonlight on the job, because he lacks energy to do so. This of course also depends on the individual.

The People's Economy Is the Loser

Finally: the tax rate plays a definitive role in the relationship between taxation and invisible income. The more significant the profit which can be realized by concealing income, the more people will try to render even their visible income as invisible, which means that the hidden economy will grow. This situation also appears in forms other than money. Voluntary cooperative home building is a well known phenomenon. Here mutual exchanges of activities take place without the exchange of money. In addition to this kind of exchange, income involving the exchange of money, and with it the concealment of activities also increases under the pressure of taxation. The end result: the people's economy is the loser, because seemingly smaller achievements encourage tax collectors to increase taxes, while taxes collected increasingly appear as insufficient to cover the increasing expenses, and increasing taxes motivate to withhold performance.

Complex Tax Math Required for Small Farmers *25000084c Budapest HETI VILGGAZDASAG in Hungarian 7 Jan 89 p 55*

[Text] An agricultural small producer is correct if he makes arrangements not only for his supply of fertilizer and feed, but also obtains a small computer or a slide

rule—if he has a desire to have accurate knowledge of his tax obligations, that is. This conclusion emerges from the chapter concerning small producers in a tax advisory prepared by Economix small cooperative.

The first question is this: what is to be considered as agricultural small production from the standpoint of personal income tax rules? Rather than presenting the rules in detail, it is more useful to simply state that agricultural small production embraces all agricultural activities (plant growing, animal husbandry) performed outside of an employment relationship, and whose purpose is the sale of the goods produced. (This category, however, does not include atypical household activities, such as the breeding of decorative animals or plants.) The interpretation of the concept is presented in more detail in the implementing provisions. In addition to these definitions, amount limitations also bear influence on tax rules: the activity qualifies as an enterprise if the resultant sales volume exceeds 2 million forints.

If the annual gross income does not exceed 500,000 forints, based on Paragraph 15 Section 16 of the personal income tax rules there is no tax obligation. In this case the income produced by such activities must not be reported on the annual income tax return.

It is important to know that the sales price of any produce or animal must be considered as income, even if part of the amount (e.g. the price of feed purchased from the cooperative) represents no income to the small producer. If the small producer contracts for harvesting under a sharecropping arrangement, the amount of income will be conveyed to the small producer by the contracting business organization. From the income produced through the sale of an animal placed out for sustenance the value of the animal's sustenance must be deducted.

Let's assume that from 100 porkers and from plants growing around the household a small agricultural producer obtain annual gross receipts of 1 million forints. The law treats receipts derived from animal breeding, and from plant cultivation separately. For this reason the gross receipts must be divided on the basis of the two activities. Let's assume, that out of the 1 million forints received, 900,000 forints were derived from animal breeding, and 100,000 forints from plant cultivation.

Since a 500,000 forint portion of the receipts is tax free in this case too, the difference between the 1 million forints gross receipts, and the 500,000 forints of tax free sales yields the amount of taxable receipts. Accordingly, in our case that amount is 500,000 forints.

Because of the method of tax calculation this amount too must be divided proportionately into two parts: one representing the amount derived from animal breeding, the other from plant cultivation. Moreover, the division must be proportionate to the gross receipts, reflecting a

nine to one ratio. Accordingly: $500,000 \times 0.9 = 450,000$ forints were derived from animal breeding, and $500,000 \times 0.1 = 50,000$ forints from plant cultivation.

And what comes now is a matter of the essence: the calculation of the income content of the gross receipts, because not the gross receipts, but the income is taxable in the framework of the personal income tax system.

For purposes of calculating the income content of gross receipts, 10 percent of the gross receipts derived from animal breeding, and 30 percent of the gross receipts derived from plant cultivation count as income. It is precisely for these different proportions that the gross receipts were divided into two categories.

In our case, income figures will evolve as follows. Animal breeding: $450,000 \times 0.10 = 45,000$ forints. Plant cultivation: $50,000 \times 0.30 = 15,000$ forints.

The next task is to equally distribute the small producer's income derived from small production supposedly conducted on a family basis, among the family members.

If the income shown in our example was produced by a family of six (2 parents, two low pension grandparents, and two children, both of whom are students—one, let's say a university student, the other a 16 years old high school student) the income will be divided among them into 6 parts, and thus each of the family members will show 10,000 forints on their tax returns in the column designated as "income derived from agricultural small production."

This income must be combined with the rest of the income, and the tax due must be calculated and paid on the basis of the combined total income.

Unions Protest Price Increase, Stop Work
25000084b Budapest MAGYAR NEMZET
in Hungarian 10 Jan 89 p 4

[Text] In response to the announcement of price increases trade unions in several places used various means to unequivocally convey to the government that the population's tolerance in regards to price increases has reached the limits of what is bearable.

On Monday, the presidium of the Csongrad County Trade Union Council forwarded an open letter to prime minister Miklos Nemeth protesting consumer price increases that went into effect 9 January. The present drastic price increase affects a mass of basic consumer goods and services which cannot be done without in everyday life, and places a particularly great burden on social strata which experience difficult circumstances. As a result of price increases the living conditions of residents of Csongrad County will deteriorate more than the average, because within the county wages and pensions fall substantially below the national average. The presidium of the Trade Unions County Council [SZMT]

requests the government to prepare a program by which the disadvantaged situation of Csongrad County is discontinued.

Tens of thousands of workers expressed their protest Monday morning by stopping work for ten minutes in Szabolcs-Szatmar county in response to price increases. Factory trade union leaders informed county level trade union organizations already in the middle of the previous week that workers received the news of planned price increases unfavorably, and that they were organizing protests. As SZMT secretary Mrs Sandor Marik said, in this situation the county trade union leadership decided to support the workers' initiative to protest price increases by delaying the start of work by 10 minutes, provided that such delay takes place in an organized fashion.

The presidium of the Zala County Trade Union Council at its extraordinary and expanded session on Monday adopted a position which primarily expressed a concern regarding the large scale price increase which affects fundamental consumer goods. These measures have an increased effect on areas where wage levels fall below the national average, and material needs can be satisfied only as a result of particularly great efforts. The people of Zala county fall in this category. According to unanimous views, publicly announced sociopolitical measures cannot, by far, offset, or significantly reduce the increased expenditures of low income families.

For this reason the statement demands that the government examine the possibility of offsetting to a greater extent the price increases; that no additional price increase take place until wage reform is introduced; and that the 3700 forint minimum wage be introduced immediately.

Members of the Gutenberg Trade Union Federation—the Printing Shop Workers' Union, the Paper Industry Workers' Union, the Press Trade Union and the Book Publishing Workers Trade Union—at their joint meeting on Monday prepared a joint statement concerning the 9 January price increases. To partly offset the price increases they felt that a five percent undifferentiated wage increase is indispensable and that such an increase must be introduced by their corresponding business organizations on 1 February. The Federation calls upon the various trades belonging to its member trade unions to commence discussions concerning wage increases without delay, with the respective managers of their enterprises. The Gutenberg Trade Union Federation views this wage action only as the first step in the framework of the 1989 wage enhancement.

Co-Ops Claim Government Breach of Contract
25000084a Budapest MAGYAR NEMZET
in Hungarian 27 Dec 88 p 3

[Text] The presidium of the National Council of Agricultural Producer Cooperatives [TOT] met last weekend. The meeting chaired by TOT president Istvan Szabo heard a report and discussed how the agricultural cooperatives managed in 1988.

TOT economic division chief Jozsef Huszar told the meeting that in addition to bad weather, changed economic regulations also had an adverse effect on cooperatives. As a result of partly implemented price reform, 50-60 percent of agricultural products is governed by prices fixed by the authorities. At the same time price restrictions on an increasing part of machinery and industrial products purchased by cooperatives are being lifted.

Agricultural cooperatives increased the value of production by one percent of the previous year's level. There is a two to three percent increase in basic agricultural activities. Income earned from food crops increased slightly, while earnings from animal husbandry and supplementary activities remained unchanged. The quantity of crops harvested from ploughed lands was consistent with the planned goals, despite the fact that the various farms grew wheat in 70,000 hectares less area. The area in which oleaginous plants were cultivated decreased by 20,000 hectares, while plants with protein content were cultivated on 90,000 hectares more land.

Animal husbandry constituted 40 percent of the basic farm activities. The profitability of this endeavor declined further. The net income produced was disproportionate to the labor and resources invested. The number of cows declined, mainly the production of meat slowed down. Producers were concerned about the fact that the protein content of feed provided to them was lower than what it should have been. Thus the weight increase of the animals was slow, the time period during which the animals were maintained expanded, and producer costs increased. Since the profitability of agriculture declined, the number of sheep raised by cooperatives declined further by 10-14 percent.

Supplementary activities stagnated for the third year. The stagnation followed a forceful developmental process. Tax reform which went into effect at the beginning of the year, as well as narrow opportunities for import rendered the industrial production of cooperatives uneven. Despite this fact, industrial production continued to contribute significantly to offset the loss of income earned from basic activities.

The following issue was raised at the meeting: farms are disadvantaged by the fact that in recent years production costs increased at a faster pace than selling prices. Central financial management does not favor production, since in most cooperatives interest expenses exceed the profits. There continues to be no competition among banks. To top it off, the interest rates on loans taken two years ago were increased; those who raised this issue viewed the matter as a unilateral breach of the [underlying] financial agreement.

MSZMP Central Committee economic policy division deputy chief Ferenc Fekete stated that beside food producers, representatives of other branches too request [contributions] from the central coffers, while it is impossible to satisfy all needs at once. By all means there is a need for the market to play a greater role in the formulation of the economic conditions of agricultural basic activities. We must reach a point where producer prices reflect production costs. In order to achieve this, a further modification of the financial system is indispensable, otherwise the motivation and security of producers cannot be established.

TOT executive secretary Janos Eleki summarized the debate and stated that the quantities produced by agricultural cooperatives this year will be acceptable. It is not certain at all, however, whether the several years of decline in profits, the decline in income will not adversely affect production volumes in the future. Namely, production will suffer if cooperatives do not have enough money to replace and expand their means of production.

A decision was made to convene a conference of agricultural producer cooperatives for 23 February, at which time the pressing concerns of the agricultural cooperative sector will be revealed and the possibilities of progress will be discussed.

First Private Stock Corporation Established
25000086b Budapest MAGYAR NEMZET
in Hungarian 4 Jan 89 p 3

[Text] By attracting private capital, the Rádus Small Cooperative of Szombathely—or more appropriately, the Radius-Hungaricus Stock Corporation—a few days ago changed its organizational form. At the organizing meeting of the "Inc.," Laszlo Molnr, the small cooperative's president rightfully declared to stockholders gathered: a new era is beginning with real risk-taking. The first private stock corporation of Hungary begins its operations with 63 million forints initial capital. Its main stockholder is the small cooperative. Private persons contributed 23 million forints to the business. There has been no example in Hungary for this kind of attraction of private capital since 1948.

It was declared at the organizing meeting that beginning this year the initial capital of the corporation will be raised to 500 million forints. The corporation will do business throughout the country. We learned of an interesting plan in this context. The already functioning weekly newspaper TER-KEP [Space-Picture] will be sold nationwide. It is expected that come Spring, TER-KEP will appear in larger cities from Szombathely to Nyiregyháza. The corporation plans to establish editorial offices in counties and began to recruit journalists already. Another novelty will be that the weekly newspaper in given areas will recognize nationalities, and will include German, Czech, Slovakian, Romanian, Croatian and Slovenian language inserts.

Out of the hoped for proceeds from soon to be issued stocks they will initiate ventures which they deem profitable. Health care, art work, real estate are just a few of the [possible, planned for] activities. It is surprising news that in Szombathely a stock market will be established in 1990. It is their intent to produce in part for Western currency, thus helping the people's economy. They are already negotiating with Austrian firms, and there has been one concrete offer of 1 million Schillings already. The goal is to produce additional profit through diversity. Gains can be made on the exchange rate by those who buy stocks now, because the value of the stock will triple or quadruple in a year or two, so we heard.

At the organizing meeting this question was asked: what if the enterprise goes sour? The answer: the profile is purposely diversified, thus profitable branches will carry losses temporarily. Quite naturally, whatever does not work will be discontinued instantly. It is equally true that deviating from practice thus far, while great risks must be taken, also the hoped for profits are unusually large. (If the corporation succeeds, the present core stock listed at 100,000 forints will be worth almost 500,000 forints in a year.)

A board of directors was elected at the meetings. Its chairman is a young physicist named Gyorgy Surek.

Petitioners Oppose Power Plant Construction
25000085 Budapest MAGYAR NEMZET in Hungarian
3 Jan 89 p 3

[Article: "For the Danube: 'Roundup' in the Underground Passageway"]

[Text] "They should build apartments, not power plants!" This is what I hear in the underground passageway at Blaha Lujza Square, and I am tracing the voice. Across from the Metro entrance one of the columns holds two homemade, colorful posters. On one of them they wish happy new year, and call attention to the fact that the last word has not been said in regards to Visegrad-Nagymaros. The other poster makes an appeal: Compatriots! Signature collection for the Danube, for the future. Four persons invite the increasing number of late afternoon passersby, with Danube Circle buttons on their coats they alternate by speaking loud words and by simply holding the sheet of paper to the passersby: join the populous group opposing construction of the power plant. They request that I do not use print names, but they are happy to reveal their occupations. One of them is an economist, the other is an apprentice at a computer enterprise. The third young man is a programmer from the Nagykunság region, the fourth is a long-haired young girl. She teaches at a day care center.

Interest around them is on the increase. People stop, there are some who after noticing the poster instantly ask for the pen and write their names. Others wish to hear a lengthy informational presentation, then waive their hands: stupidity, they say, then proceed. A man with an

attache case and a fur hat speaks out while joining the group which demands popular referendum: he talks about all the things he signed in his life and nothing ever happened. Teenagers appear with hamburgers in hand. While one signs, the other continues with the large bun, then exchange pen and hamburger.

Meanwhile I learn Monday's activity was organized by the Danube Circle. They have been collecting signatures ever since 30 October, at present they have about 70,000 signatures. They came here at 2:30 pm, and they will stay until 7 or 8 pm. And just why wouldn't they want their names printed? They got into trouble with the police several times. For instance: they were peacefully functioning on Vaci Street. Upon entering Kossuth Lajos Street, they were instantly lined up in an entrance way. But they also tell me that on Ors Vezer Square they were protected by the police from a drunkard ready to attack....

They hand me a pamphlet which produces unexpected success. People surround me, they read parts of it. After discovering my notebook they want to sign that too. I felt obliged to reject this interest.

They've been collecting signatures since 5 am, at the Western terminal in the underground passageway. Since 2 pm, Laszlo Gajzago too participates in this work:

"In three hours about 80 people signed the sheet I have. Many don't dare to put their names to their opinions. Both young and old. Many get frightened when they discover that their addresses too should be included. Four or five people came here to argue. Generally speaking they repeat what the minister had to say in Parliament: it would be a shame to stop construction, and that it would be bad for Hungary's dignity if they would not continue. Many just waive, indicating that we will not get anywhere with the signatures, but from among the nonbelievers many want to provide assurance with their names that they support our cause.

Meanwhile many people on their way home from work come to me, there are some who first study the posters at length, then step over to the sheets. Others instantly provide us their John Hancock. Next to us a group debates whether anything can be accomplished with such methods. Meanwhile two policemen pass by.

"The police officers did not say anything about why we are doing this thing," Laszlo Gajzago says, "but it's true they did not sign our petition either."

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